ECONOMIC PROBLEMS FACING SMALL AND INDEPENDENT BUSINESSES IN THE FOREST PRODUCTS INDUSTRY

HEARING

BEFORE THE

SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION

OF THE

COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

ECONOMIC PROBLEMS FACING SMALL AND INDEPENDENT BUSINESSES IN THE FOREST PRODUCTS INDUSTRY

DECEMBER 8, 1982

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December 8, 1982:

Afternoon session 1

ECONOMIC PROBLEMS FACING SMALL AND INDEPENDENT BUSINESSES IN THE FOREST PRODUCTS INDUSTRY

WEDNESDAY, DECEMBER 8, 1982

U.S. SENATE,
SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 6226, Dirksen Senate Office Building, Hon. Slade Gorton (chairman of the subcommittee) presiding.

Present: Senators Gorton and Baucus.

Also present: Robert J. Dotchin, staff director; Mary E. Meyers, professional staff member; Creigh H. Agnew, legislative assistant to Senator Gorton; Alan L. Chvothin, minority chief counsel; Steve Rovig, legislative assistant to Senator Baucus; and Dorthy C. Olson, hearing clerk.

STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM THE STATE OF WASHINGTON, AND CHAIRMAN, SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION OF THE COMMITTEE ON SMALL BUSINESS

Senator GORTON. I will call this meeting to order.

First of all, I would like to thank Chairman Weicker for allowing us to hold this hearing on such short notice. I would also like to extend my deep appreciation to Senator Baucus for agreeing to chair most of this hearing here today because of the necessity of me to leave almost immediately.

Our Nation's economic troubles have crippled the entire forest products industry. High interest rates have devastated the housing market, creating economic distress for every aspect of the industry. In the Pacific Northwest, in Washington and Oregon in particular, income from forest products declined by $1.5 billion in 1980 and another $1.3 billion in 1981. In my own State, almost a quarter of the population depends on forest products related jobs to earn a living. In Oregon I believe the figure is closer to 40 percent.

In June of this year, the National Forest Products Association reported that 159 western softwood sawmills were shut down, and 182 were operating on reduced schedules. These are extremely grave and alarming figures. Businesses throughout the entire industry have been forced to close their doors. Operators who have contracted with the U.S. Forest Service for timber supplies face the prospect of widespread defaults. An unfortunate consequence of the

depressed state of the forest products industry is that these economic conditions have had a disproportionate impact on small and independent businesses. Although a lot of data has been released on the depressed state of the industry to date, we believe that the problems unique to small and independent businesses have not been adequately addressed in the information which has been presented to Congress at this point. And that brings me to the purpose of our hearing today.

As chairman of the Small Business Productivity and Competition Subcommittee, I can think of no better place than under the purview of this subcommittee to examine the economic problems facing small and independent businesses in the forest products industry and the undesirable economic concentrations which may occur within the industry if no relief is forthcoming.

I would also like to enter a statement from Senator Packwood.

[The prepared statement of Senator Packwood follows:]

STATEMENT OF

SENATOR PACKWOOD

Small Business Committee

Oversight Hearing on Economic Problems Facing Small And Independent Businesses in the Forest Products Industry

December 8, 1982

Mr. Chairman, as a Senator from a state with one of the highest unemployment rates in the country, I am well aware of the disastrous condition of its primary industry.

Business in the timber industry has always been cyclical. Businessmen in the industry anticipate, therefore, that after a few years of prosperity there will be some lean times. The current "lean period", however, has lasted for three years -- a period precidented only by the Great Depression. And we have not yet seen the end.

The depression in the industry has affected companies of all sizes and financial conditions. It has affected those that depend on public timber, and those that harvest their own land. It has affected companies which overbid on federal timber contracts, and those that didn't. Companies in all parts of the country have been hit. Neither large nor small has remained isolated from the current depression in the industry.

But the companies now standing on the brink of bankruptcy are the small ones. All companies are taking losses of one sort or another. But it is the small operator, the backbone of the industry, who will go out of business first.

Several factors have led us into this situation. The major problem, still with us today, is sustained high interest rates. Clearly, the long term solution to the timber depression is a higher level of housing starts through lower interest rates.

In the short term, however, we are faced with the possible disintegration of a substantial part of the timber industry. If some way of moving more timber through the mills is not found soon, it will be a weak and ineffective industry we turn to when interest rates finally come down and the demand for housing booms.

The price of federal stumpage is a problem which offers a more ready solution. Prior to the steep drop in housing starts, federal timber was put under contract at prices which are now uneconomical to cut. Timber contracted for more than $300 per thousand in 1979 or 1980 cannot be cut today, when new contracts are being sold at less than $200.

Mr. Chairman, the companies hardest hit by this situation are the small timber operators. Many of them are totally dependent on federal timber sales for their raw material. These small businessmen have put a lifetime of work and everything they own on the line. And they are going under.

Legislation providing relief through termination, extension, or modification of federal timber contracts is a short-term solution to fit a short-term problem. Some have charged that such relief is aimed at the big names in the

timber industry. It is not. The primary benefit will go to the small businessman. It will keep that core of the timber industry, the small operator, alive. Only by helping the small timber operator now can we insure ourselves of a future industry strong enough and diverse enough to meet the projected demand for lumber at the end of the recession.

Of course, the price of federal timber contracts is not the only problem facing the industry, nor is contract relief our only means of offering assistance. It is, however, the most pressing problem facing the industry at this time. I hope the Committee will take this opportunity to discuss this problem along with some of the others facing the industry.

Senator GORTON. At this point, because of our previous arrangements, I will turn the hearing over to my colleague, Senator Baucus, with my great thanks for his willingness to engage in that task today.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. I wish to thank you for calling this hearing in the first place. The entire timber industry of the Northwest is particularly indebted to you, and we thank you very much.

Mr. Chairman, the gloom that overshadows the entire industry is darker than an Arctic storm coming down the Rocky Mountain front this time of the year. I remain hopeful that these difficulties can be overcome. America has a vast timber resource, both private and Federal. The industry's plants are in better shape than virtually any other segment of the economy. While work is needed, our infrastructure is basically sound and ready to move raw materials and manufactured goods. Labor is highly motivated, well trained, and available. Furthermore, no industry better typifies the kind of know-how characteristic of small businesses than the forest products industry.

Today, 60 percent of the forest land in the United States is still held by some 7.5 million landowners. Giant corporations own only 14 percent. Thus, from growing the wood to cutting and hauling by gypo loggers to manufacturing by family owned sawmills, the industry benefits from small business involvement. I am, nonetheless, concerned that the current economic slump is disproportionately affecting small businesses. In an article which recently appeared in Business Week, the chairman of Boise Cascade summed up the situation, saying that many companies that do not have solid cash reserves, as well as timber holdings, will have to "go out of business or combine with others."

Whether engaged in making traditional products, such as lumber, or products that require massive capital investment, such as paper, plywood, and composite-wood products, we have all seen the trend toward multinational horizontally and vertically integrated companies. In plywood production, for example, the two largest firms have increased their share of the market from 8.4 percent in 1960 to 28.8 percent in 1982. My concern is that without immediate attention, this process could needlessly accelerate.

The purpose of this hearing is to get an overview of the current situation facing small businesses in the timber industry, from the SBA, from businessmen, who have agreed to come here today to share their first-hand experiences. In my view, this subcommittee should be looking into how small business is faring in wood production, not only nationwide but also in various regions.

The subcommittee must also examine the relationship between small businesses and the national forests, an extremely important issue in Montana. This should include a review of the purchaser of credit situation, as well as timber availability.

From this dialog can come a prospective agenda for the short and long term. I am sure all of you know that proposals are before Con-

gress today to provide relief for the timber industry. I am very concerned that the particularly pressing needs of small businesses might get lost in the shuffle. Constructive and innovative action must be taken promptly by the Federal Government if we are to insure that companies like those represented here today will be around to enjoy the prosperity which an improved national economy will bring.

I am looking forward to the testimony and an opportunity for questions. We are going to conduct this hearing in three different sections. We first have a single witness and then two separate panels. The first witness will be Mr. Robert McDermott, who is the Associate Administrator for Procurement and Technical Assistance at the SBA.

Go ahead, Mr. McDermott. We have a copy of your statement here. You may either read it or summarize it. Proceed in any manner that you think is most effective. And for the record, please identify your associate.

STATEMENT OF R. F. McDERMOTT, ASSOCIATE ADMINISTRATOR FOR PROCUREMENT AND TECHNICAL ASSISTANCE, U.S. SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY JOSEPH KERNAN, DIRECTOR, OFFICE OF NATURAL RESOURCES SALES ASSISTANCE, SBA

Mr. McDERMOTT. Thank you, Mr. Chairman. My colleague with me this afternoon is Mr. Joseph Kernan. Mr. Kernan is the Director of the Office of Natural Resources Sales Assistance, and as such is the line manager of the Small Business Administration timber set-aside program.

I would like this afternoon very briefly to review the Small Business timber set-aside program and to respond to your specific inquiries regarding what we consider to be a very successful program.

The Small Business Administration timber set-aside program is a national program administered jointly by the Small Business Administration and the appropriate Federal agencies responsible for the disposal of federally owned timber. These are basically the U.S. Forest Service and the Bureau of Land Management. The present program of establishing small business set-asides merely allows small business preferential bidding, if required, to insure that those small businesses have the opportunity to obtain their recent historical share of Federal timber.

In 1958, the Small Business Administration and the U.S. Forest Service established a mechanism for the first timber set-aside program. With the decline in number of timber purchases by small business and the increase in the number of acquisitions of small concerns by large companies, both SBA and the U.S. Forest Service reexamined the set-aside program in the late sixties. The agencies found that the 1958 set-aside program was ineffective in order to insure small business a fair proportion of national forest timber sales. The procedure for instituting a set-aside sale was cumbersome The program had no definite guidelines for determining either when a set-aside was necessary or the volume of timber that needed to be set aside.

In the current program, which was established in 1971, the fair share of Federal timber sales, designated as the base average share, is the percentage of Government timber sales which have been awarded to small business in a previous 5-year period in a particular geographic area. The 5-year period is known as the base period. Since competition, manufacturing facilities, timber species, marketing characteristics, and many other variables necessitate a local approach in administering the program, the geographical unit by which base share and other tabulations are made is termed a market area. Generally, this area coincides with a national forest.

Whenever in open bidding small business accrues an incremental deficit of 10 percent or more of its base average share in a particular market area during a 6-month period, then ensuing sales in that market area will be set aside for small business until its base average share is reached.

The 5-year base period revisions provide for flexibility and permit adjustment to reflect actual purchasing trends. The 50 percent floor of the original base period, below which market areas cannot go, insures small business a basic minimum proportion of national timber sales and in this way encourages its preservation, contrary to the previous trends toward merger with or elimination by large firms.

The congressional mandate to protect and assist small business concerns and to insure those small business enterprises a fair proportion of total Government property has been implemented following the just-mentioned procedures, which have been carefully devised and repeatedly reviewed.

The key to the effective SBA program is the establishment on each national forest or marketing area of the competitive historically supported fair share for small business. Those that oppose this program know that any other subjective method to determine fair share based on mill capacity, timber under contract, lumber production needs, or whatever, would lead to endless arguments on what the share would be. The set-aside program would be subject to continuous negotiation and delay would be endless. The simple factual system of using purchase history, however, has proved to be both practical and efficient.

In 1980, the Small Business Administration conducted another set of hearings on the timber size standards. These hearings were held in Atlanta, Ga.; Sacramento, Calif.; and Seattle, Wash. Based on the hearing testimony and additional written comments from the public, SBA confirmed the small business size standard in November 1981 for purchase of Government-owned timber as a concern that: (1) Is primarily engaged in the logging or forest products industry; (2) is independently owned and operated; (3) is not dominant in its field of operation; and (4) together with its affiliates, does not exceed 500 employees.

As I said earlier the present program of establishing set-asides does nothing more than allow small business preferential bidding, if required, to assure small business the opportunity to compete for its historical share of Federal timber sold. The current success and close working relationship of the joint SBA, U.S. Forest Service, and Bureau of Land Management efforts can be measured by the share volume and price offered for federally owned sawtimber

being purchased by the small business industry, a circumstance which we believe would not exist without the protection of the set-aside program. We have attached a statistical summary which outlines the Federal timber sale awards from fiscal year 1977 through fiscal year 1981. As yet, unfortunately, we do not have complete fiscal year 1982 data.

The positive aspects of the set-aside program can best be described by the program's success in having maintained a viable and competitive forest products industry. Problem areas, while they do exist, are basically those of procedural interpretation or those that develop as the program matures.

We are currently reviewing the overall set-aside program and are fully prepared to make adjustments to the program as may be required to further strengthen it. The study is reviewing U.S. Forest Service timber sale characteristics for all sales over $2,000 during the period fiscal year 1973 through fiscal year 1979. The study will examine competition, changes in industry structure, sale selection, and other aspects of the small business timber program. These data on over 18,000 sales are now being summarized for review.

In closing, Mr. Chairman, I would like to emphasize that the SBA timber set-aside program has, at least in our opinion, been highly successful in serving the small business timber industry and has been instrumental in reducing the erosion of the small operators through acquisition by industry giants. This concludes my prepared statement, and I will be pleased to answer any questions you may have on the program or furnish whatever information is necessary for the record.

[The material follows:]

SUMMARY OF FEDERAL TIMBER SALES AWARDS BY INDUSTRY SIZE AS DEFINED BY SBA

	Fiscal years				
	1977	1978	1979	1980	1981
Total sales awarded:					
1. Number of Sales	3,004	3,770	3,819	3,445	3,591
2. Volume [1]	9,149	10,554	10,315	10,339	10,139
3. Value (thousands of dollars) [2]	1,227,111	1,698,957	2,390,893	2,507,937	2,239,976
4. Average value/Mbf (3÷2)	134.13	160.98	231.78	242.57	220.93
5. Average sale size (2÷1) [1]	3.05	2.80	2.70	3.00	2.82
Sales awarded to large business:					
1. Number of sales	968	1,171	1,015	948	933
2. Volume [1]	4,582	4,959	4,621	5,168	4,507
3. Value (thousands of dollars) [2]	628,434	840,508	1,087,580	1,245,293	978,834
4. Average value/Mbf (3÷2)	137.15	169.49	2365.36	240.96	217.18
5. Average sale size (2÷1) [1]	4.73	4.23	4.55	5.45	4.83
Sales awarded to open sales to both size classes of concerns:					
1. Number of sales	2,497	3,124	3,087	2,941	3,005
2. Volume [1]	7,205	8,119	8,097	8,428	7,950
3. Value (thousands of dollars) [2]	946,624	1,282,993	1,914,034	2,098,372	1,744,255
4. Average value/Mbf (3÷2)	131.38	158.02	236.39	248.98	219.40
5. Average sale size (2÷1) [1]	2.89	2.60	2.62	2.87	2.65
Total sales awarded to small business:					
1. Number of sales	2,036	2,599	2,804	2,497	2,658
2. Volume [1]	4,567	5,895	5,694	5,166	5,632
3. Value (thousands of dollars) [2]	598,677	858,449	1,303,313	1,262,644	1,261,142
4. Average value/Mbf (3÷2)	131.09	153.43	226.89	244.41	223.92

SUMMARY OF FEDERAL TIMBER SALES AWARDS BY INDUSTRY SIZE AS DEFINED BY SBA—Continued

	Fiscal years				
	1977	1978	1979	1980	1981
5. Average sale size (2÷1) [1]	2.24	2.15	2.03	2.07	2.12
Unrestricted sales to small business:					
1. Number of sales	1,529	1,353	2,072	1,993	2,072
2. Volume [1]	2,623	3,160	3,476	3,260	3,443
3. Value (thousands of dollars) [2]	318,190	442,485	826,454	853,079	765,421
4. Average value/Mbf (3÷2)	121.31	140.03	237.76	261.68	222.31
5. Average sale size (2÷1) [1]	1.72	1.62	1.68	1.64	1.66
Set-asides to small business:					
1. Number of sales	507	646	732	504	586
2. Volume [1]	1,944	2,435	2,218	1,906	2,189
3. Value (thousands of dollars) [2]	280,487	415,964	476,859	409,565	495,721
4. Average value/Mbf (3÷2)	144.28	170.83	215.00	214.88	226.46
5. Average sale size (2÷1) [1]	3.83	3.77	3.03	3.78	3.74
Percent of total volume set-aside for small business	21.2	23.1	21.6	18.4	21.6
Percent of total volume awarded to small business	49.9	53.0	55.2	50.0	66.5

[1] Million board feet of sawtimber (MMbf).
[2] Bid Value of sawtimber and other forest products in sale. Primarily competitive sales over $2,000 in value, sold by USDA (Forest Service), USDI (BLM and F&W), and DOD.
(Data summarized by SBA), January 19, 1982.

Senator BAUCUS. Thank you, Mr. McDermott. I wonder if you could summarize the table you referred to which has the figures. I have not had time to study it. Could you summarize what the figures show as to whether the percentage of board feet under the set-aside program has been about constant for the last 10 years or has changed. I am trying to get a feel for whether there have been any changes in the number of board feet harvested in the set-aside program over the last 10 years.

Mr. MCDERMOTT. This chart, Mr. Chairman, is only for 5 years. If you would like, we could go back and provide for the record the additional data.

Senator BAUCUS. If you could, please, I would appreciate that. In your own words, could you just tell me roughly has the percentage for the set-aside program been about the same in each of the 10 years or has it fluctuated significally?

Mr. MCDERMOTT. The total volume awarded to small business during this period has increased from about 50 percent to 55 percent. As far as the set-aside sales are concerned, the percentage that has been awarded is pretty constant. There has been a slight variation. For example, in fiscal year 1977, it was 21.2 percent, and in fiscal year 1981 it was 21.6 percent. So it has been fairly constant through those years.

[Subsequent information was received and follows:]

The SBA submitted the following:

"Attached is a statistical summary which outlines the Federal timber sale awards from Calendar Year 1975, the year SBA commenced the summary, through Calendar Year 1978. We do not have information that would summarize timber volume harvested from set-aside timber sales."

SUMMARY OF FEDERAL TIMBER SALE AWARDS BY INDUSTRY SIZE AS DEFINED BY SBA

	Calendar years			
	1975	1976	1977	1978
Total sales awarded:				
Number	2,826	2,748	3,382	3,815
Volume [1]	10,212	7,996	9,756	10,408
Value (thousands of dollars) [2]	909,975	883,714	1,315,766	1,738,257
Average value/M	89.11	110.52	134.87	167.01
Average sale size [1]	3.61	2.91	2.88	2.73
Sales awarded to large business:				
Number	922	922	1,069	1,160
Volume [1]	5,163	4,222	4,732	4,869
Value (thousands of dollars) [2]	412,989	459,862	661,710	853,564
Average value/M	79.99	108.92	139.84	175.31
Average sale size [1]	5.60	4.58	4.43	4.20
Sales awarded as "open sales" to both size classes of bidder:				
Number	2,254	2,368	2,800	3,139
Volume [1]	7,698	6,774	7,608	7,969
Value (thousands of dollars) [2]	646,416	729,140	1,001,389	1,316,835
Average value/M	83.97	107.64	131.62	165.24
Average sale size [1]	3.42	2.86	2.72	2.54
Sales awarded to small business:				
Number	1,904	1,826	2,313	2,655
Volume [1]	5,049	3,774	5,024	5,539
Value (thousands of dollars) [2]	496,986	423,852	654,056	884,693
Average value/M	98.43	112.31	130.19	159.72
Average sale size [1]	2.65	2.07	2.17	2.09
Of the sales awarded to small business, they are in two categories as follows:				
Unrestricted sales to small business:				
Number	1,331	1,446	1,731	1,979
Volume [1]	2,535	2,552	2,876	3,100
Value (thousands of dollars) [2]	233,427	269,638	339,679	463,271
Average value/M	92.09	105.66	118.11	149.44
Average sale size [1]	1.90	1.76	1.66	1.57
Set-asides to small business:				
Number	573	380	582	676
Volume [1]	2,514	1,222	2,148	2,439
Value (thousands of dollars) [2]	263,559	154,214	314,377	421,422
Average value/M	104.84	126.20	146.36	172.78
Average sale size [1]	4.39	3.22	3.69	3.61
Percent of total volume set-aside for small business	24.6	15.3	22.0	23.4
Percent of total volume awarded to small business	49.4	47.2	51.5	53.2

[1] Million board feet of sawtimber.
[2] Bid value of sawtimber and other forest products in sale. Primarily competitive sales over $2,000 in value, sold by USDA (Forest Service), USDI (BLM and F. & W.).

(Data summarized by SBA), July 3, 1979.

Senator BAUCUS. I see. At the bottom of the chart, the figures you read are a percentage of total volume set aside for small business. For fiscal year 1977, is that 21 percent?

Mr. MCDERMOTT. 21.2 percent.

Senator BAUCUS. In 1978, 23 percent; in fiscal year 1979, 21.5; fiscal year 1980, 18.4; and fiscal year 1981, 21.6. That is roughly constant, even though in those years the number of board feet harvested has fluctuated more; is that correct, overall?

Mr. MCDERMOTT. At the top, Mr. Chairman, item No. 2, the volume has been about the same, between 9 and 10 billion.

Senator BAUCUS. Can you also give me in your own words your impression of the degree to which concentration of power in the in-

dustry is causing problems for smaller businesses, that is those firms with fewer than 500 employees? Has that become more or less of a problem in the last 10 years?

Mr. McDERMOTT. I think, Mr. Chairman, that we see the continual effort on the part of giants of the industry, if you will, to do whatever can be done to, if not eliminate this program at least reduce it to the point where, in our opinion, it would be most ineffective. This is the continual problem that we are facing, and I know it is the continual problem that companies who have less than 500 employees are facing. It is something that we are aware of and fighting every day. There is a move afoot continually to concentrate the industry by eliminating these small businesses.

Senator BAUCUS. In your judgment, if the set-aside program were eliminated, how many small businesses or what percent of the small businesses would be able to survive over 3 or 4 years?

Mr. McDERMOTT. My personal opinion is that in a very short period of time there would be very few small businesses left in the forest products industry.

Senator BAUCUS. If the set-aside were eliminated?

Mr. McDERMOTT. If the set-aside were eliminated, yes, sir.

Senator BAUCUS. Now, let me ask the same question with respect to proposed changes in purchaser credit. As you know, there was some legislation introduced which would allow firms to transfer the purchaser credit to other firms or apply it to other forests. Under present law, purchaser credits can be applied only to different sales on the same forest. If that change were made in the purchaser credit program, to what degree would that slow down the trend toward concentration in the industry, in your best judgment?

Mr. McDERMOTT. Mr. Chairman, I believe that is part of a bill that is pending before the Senate. Unfortunately, we have not read the bill, and are not prepared to discuss that.

Senator BAUCUS. I understand, but if I were to propose this change, what would your reaction be to it? I am wondering what your personal impressions of that kind of change would be, and the degree to which it would slow down the concentration. How important a change would that be.

Mr. McDERMOTT. Can we deliberate that and give you an answer for the record, Mr. Chairman?

Senator BAUCUS. I am asking the question particularly because of the problems facing the forest products industry generally and particularly small firms in the Northwest, with housing starts down so much in the last several years and interest rates so high.

Mr. McDERMOTT. We would be happy to furnish that for you.

[Subsequent information was received and follows:]

I am not aware of any statistical data that would indicate that the treatment of purchaser credits would directly affect concentration within the timber industry.

Senator BAUCUS. We would appreciate, Mr. McDermott, if you could comment on other features in that bill. I understand that the administration does not want you to comment on the bill. I am asking you for your own personal views.

Mr. MCDERMOTT. Very honestly, I have not seen the bill. It has not been sent to us, it has not been referred to us, I have not read it, so I really do not feel I can comment on it.

Senator BAUCUS. So, you are primarily an expert on the set-aside program?

Mr. MCDERMOTT. The timber program is one of about six programs that I have under my control, and as I said, Mr. Kernan is the direct manager of this program.

Senator BAUCUS. Given the plight of the forest products industry today, would you suggest any changes in the set-aside program? Would you expand the set-aside?

Mr. MCDERMOTT. As I said, we have a study going on, which is a joint study with the Forest Service. We are not yet at the point where either the Forest Service or we can come forth with a proposal. We hope to be able to do that within the next 3 or 4 months. As I said in my statement, I do believe we will be suggesting some changes. Just what they are going to be, I don't know at this point. I would be very concerned if there were any attempt on anybody's part to eliminate this program. I think it would be the death of small businesses that are in this timber industry. I would be very concerned if there were an attempt through legislation to affect the size standard, because at the moment, at least, we certainly do not have any intent, to lower the size standards. The size standards have been examined in this program about eight times since 1964, and each time there has been an overwhelming response to keep the size standard where it is. This is one of the areas that has come under attack by large business: That the size standard be lowered to 50 or 25 or something like that. I think if that were to happen, all those companies that are presently between whatever that figure might be and 500 would very soon find themselves going out of business.

Senator BAUCUS. The set-aside program certainly differentiates the large and small operators. As such, it is a program which you believe very much in, insofar as it does give necessary assistance to smaller operators—that is, firms with fewer than 500 employees. Would you favor other kinds of efforts to aid smaller operators, particularly given these times, compared with larger operators?

Mr. MCDERMOTT. We have another program which is designed to help very, very small companies, known as the special salvage timber sales program, which was started about 3 years or so ago. Basically, it is a program to help very small loggers. That program is restricted to dead, down, and dying timber. The size standard in that program is 25 or fewer employees. We presently have a proposal out in the Federal Register to include in that program sawmills that would fall within that number of employees, as opposed to just loggers.

Mr. KERNAN. Specifically, the language proposed has been to make an effort to eliminate brokers or speculators from the program and to try to insure that those small firms that purchase the sales are in fact legitimate—in the case of the proposed language—"loggers" and we are now reviewing some comments that we have received to include small sawmills. But the purpose of the proposed change is to eliminate the speculator and the broker from the purchase of these small sales.

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Senator BAUCUS. You are not talking about the special salvage timber sales changes now, are you?

Mr. KERNAN. Yes, sir.

Senator BAUCUS. Do you need legislative authorization for those changes?

Mr. KERNAN. No, sir, we believe that this can be done administratively, and we have published in the Federal Register.

Senator BAUCUS. When do you expect the new changes to go into effect?

Mr. KERNAN. Either the final rule or a second proposal will be published within 30 days.

Senator BAUCUS. When would they be effective? When could an operator take advantage of them, roughly?

Mr. KERNAN. They would be effective 30 days after the final rule is published in the Register.

Senator BAUCUS. Again, about when might that be?

Mr. KERNAN. We hope that we would be able to have the next publication in the Register within 30 days.

Senator BAUCUS. The general principle I am trying to establish, Mr. McDermott, is in the set-aside program and the special salvage timber sales proposals, given the fight with the industry today, whether as a general principle you would favor efforts to differentiate between smaller and larger operators? Does it make sense to try to find further assistance for smaller operators? Are conditions that dire in your judgment?

Mr. MCDERMOTT. I think conditions are dire; I do not think there is any doubt about that. I am not an economist and particularly not a forest economist, but in my discussions with people in the industry over the last many months, I am aware of the situation that exists because of the housing industry and so on.

I realize that 1980 was prior to the difficult circumstances that just have existed recently. But during our discussions and oral hearings at that time on size standards, there was some evidence introduced or discussion introduced relative to establishing different size standards within the program, including different size standards for different parts of the country. In other words, a size standard of 500 employees for the western part of the country and a size standard for 250 employees or 200 employees in the eastern and southeastern parts of the country. The information we received at that time was overwhelmingly against having a separate size standards or two different size standards or levels of size standards within the industry, not only because of the difficulty that it might cause for operators in determining who, when, where, and why, but also the administrative burden it would put on the Forest Service who has to run these sales. That is a secondary item, as far as we are concerned.

The thought at that time by the industry, basically by the small industry, was that they did not want different levels of size within the program. Whether that thinking has changed today from what it was in 1980, at this point I do not know.

Senator BAUCUS. Would you agree that the smaller operators are struggling much more than are larger operators? That is, conditions that face smaller operators today are much worse than those which face larger operators?

Mr. McDERMOTT. I would agree with that, sir, just by the size of the organization and the resources that a large company has versus the resources a small company has. It would have to be.

Senator BAUCUS. Does SBA have any data on this point?

Mr. McDERMOTT. No, sir. In trying to get ready for this hearing in somewhat of a hurry, we talked with the economics section in our Office of Advocacy to try and see if, in fact, we did have, and we do not have, unfortunately. I have no data to present to you.

Senator BAUCUS. How long would it take SBA to accumulate that data? I am wondering just for the purposes of the hearing record whether you have the time or the resources to develop that data for the record.

Mr. McDERMOTT. I think perhaps, Mr. Chairman, the study that I mentioned that we are jointly doing with the Forest Service—although we are relying on them to put together the base data—will be able to do some of that for all of us.

Senator BAUCUS. I would appreciate it if you could do the best you can to try and find whatever you can, whether it is from the Forest Service or however you get it, to show that point: that is, that small businesses are in much worst shape. Obviously, I do not want you to manufacture the data, but just for the record, it is my impression that small businesses are in much worse shape.

Mr. McDERMOTT. That would be my personal impression also.

[Subsequent information was received and follows:]

I am not aware of any data that shows the current economic condition of the small business forest products industry compared to that of the large business forest products industry.

Senator BAUCUS. If you have the data that show us that, I would appreciate it if you would put it in the record.

Are you familiar with the study of almost 20 years ago by Prof. Franklin Ho, of the University of Portland, which looked specifically at small lumber companies?

Mr. McDERMOTT. No, I am not.

Senator BAUCUS. I would appreciate it if you could look at that. My understanding is that it was a fairly comprehensive study on the question. I was going to ask you if you think a followup study should be performed, but I will not since you are unaware of the first one.

Mr. McDERMOTT. We shall look at it. I am not familiar with it.

Senator BAUCUS. Thank you very much. We appreciate it.

[Subsequent information was received and follows:]

The SBA funded study by Franklin Ho was a review of problems of small business sawmills in Oregon. Many of the issues in that study are among the issues that are being reviewed on a national scope in the set-aside program study that is being conducted by the Forest Service and SBA.

Senator BAUCUS. Our first panel will be Mr. Gary Jones of Summit Timber Co., in Darrington, Wash.; with Mr. J. H. Bones, Mountain Fir Lumber Co., in Salem, Ore.; Mr. Mike Burrill, Burrill Lumber Co., in Medford, Ore.; and Mr. Arthur Harwood, Harwood Products, in Brauscomb, Calif.

You may proceed in any order that you wish.

STATEMENT OF GARY E. JONES, VICE PRESIDENT, SUMMIT TIMBER CO., DARRINGTON, WASH.

Mr. JONES. Mr. Chairman, my name is Gary Jones. I am vice president of Summit Timber Co., in Darrington, Wash. You will see by my testimony, and I will highlight it, that Darrington is a small community with about 1,000 people in the Cascade Mountains, about 50 miles inland from Everett, Wash., which is near Seattle. Summit is a family held corporation, and we have been in business for roughly 40 years. I am part of the second generation of the families that founded the company.

I am here today representing not only Summit Timber Co. but also the town of Darrington and our employees. Summit is not a large company. We do not have the assets of a large company, but we are a major employer in the Darrington area. We employ approximately 60 to 70 percent of the people in that valley. All our family assets are tied up in our sawmill, tied to the timber industry, and to survive the past couple of years, we have poured all our cash back into the company and even some of the banks' as well. Our concern today is with survival. We are interested in the hearing today because of the effect it may have on the Hatfield-Jackson-McClure timber proposal.

We are dependent on national forest land. Ninety-five percent of our timber that is sawed in our mills comes from national forest land. We have had two problems over the past couple of years that have caused uncertainty. The first one is supply that basically has been caused by the wilderness studies that have gone on, and the second one has been inflation. Inflation became a problem a few years ago, and we were forced to bid on timber sales that were to be removed 2 to 7 years into the future. When bidding against competition, we had to use inflation because it was a way of life, and we used factors anywhere from 8 to 12 percent to be realistic in our bid in time to buy a sale.

Some may say we took a gamble and lost on our timber sales. My feeling was, we were forced to bid under the system that was prevalent at that time. We were used to inflation. We were able to use it. We knew how the system worked. Then we came with an administration change and a change in fiscal policies which is eliminating inflation. We agree with what the President is doing; our problem is that we cannot survive with the contracts that were bid under the old policies. We feel that we now need a chance to start again, to be able to get rid of those old contracts and to buy contracts under the new fiscal policies established. If we do not, our timber supplies are going to be caught in massive defaults and bankruptcy courts and in the law courts of the land. Our losses alone would be about $20 million with the contracts we have on today's market. Added to the losses of $10 million we have had over the last couple of years, that would nearly equal Summit Timber Co.'s net worth. We are talking about survival now.

Our 450 union and salaried employees have done their part. They have taken a 25-percent wage cut, and we are now running the mill on a one-shift basis, occasionally a two- or even a three-shift basis. We have two mills there. We are trying to keep the employees working as much as possible and keep our cash flow posi-

tive. It has been very very difficult, but we have no choice except to close our doors if we are forced to harvest the contracts that we now have.

We thank you for the opportunity to come and especially to Senator Gorton for the opportunity to present these words at this hearing.

Senator BAUCUS. Thank you very much, Gary. We will wait for questions until each of you has testified.

[The prepared statement of Mr. Jones follows:]

STATEMENT OF
GARY E. JONES
VICE PRESIDENT, SUMMIT TIMBER CO.
DARRINGTON, WASHINGTON

BEFORE THE
SENATE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION

December 8, 1982
Washington D.C.

Mr. Chairman, my name is Gary E. Jones. I am vice president of Summit Timber Compnay in Darrington, Washington. Darrington is a small community of 1,000 people nestled in the Cascade Mountains 80 miles northeast of Seattle. Summit is a family-owned corporation founded 40 years ago.

I am here today not only representing Summit Timber management, but also our employees and the town of Darrington. Summit is not a large company, but we are the major employer in the Darrington area. We do not have any asset in our family that is not tied to the timber industry. To survive the past few years, we have exhausted all of our own cash and some of the bank's. Our concern here is the same as other mills in the northwest--Survival!

We favor the Hatfield-Jackson-McClure timber contract proposal. Summit is 95 per cent dependent on National Forest timber. We must buy federal timber to operate. During the decade of the 1970's we were forced to bid high timber prices because of two major factors: declining supply and inflation.

Supply became a factor because of uncertainty caused by wilderness additions, land use strictures and Forest Service budget problems. The second factor, inflation, became a problem because we were bidding on timber to be removed two to seven years in the future. When bidding against the competition one had to use an inflation factor of from 8 to 12 per cent to have a chance to buy the sale. This was realistic at the time because we had seen our product increase at or above the inflation rate during the 70's.

Some may say we took a gamble and lost, so why should we receive relief? My answer is: when we bid we were bidding under fiscal policy established by the past administrations, but we now are forced to harvest these sales under fiscal policies set by a new administration. We agree with what the President is doing and my hope is that we as an industry, and especially the small independent businesses, can survive to help strengthen our nation. We need a chance, however, to harvest timber sales that can be purchased under the conditions of this new fiscal policy. We feel that passing our industry bill will give us that chance. It will keep our timber supply from being tied up in the courts as a result of defaults and bankruptcies resulting from default damages.

We have 185 million board feet of Forest Service timber under contract at a delivered log cost of $360 per thousand board feet. On today's log market that same quality timber can be delivered at $250 per thousand board feet. The $110 difference would create a loss of over $20 million for Summit Timber Company. That, added to losses of more than $10 million in 1981 and 1982 would nearly equal Summit Timber Company's total net worth.

Our 450 union and salaried employees have done their part by taking a 25 per cent cut in pay. With this help, cash flow has stayed fairly stable and we have kept our employees working. But if we are forced to operate these contracts we have no choice but to default and close our doors, leaving the town of Darrington with 50 per cent unemplopyment.

We think it is to our country's benefit to keep the independent sawmill operator in business so we can continue to supply the jobs necessary to keep local communities strong.

Thank you for your time. I will try to answer any questions you may have.

STATEMENT OF J. HARVEY BONES, PRESIDENT, MOUNTAIN FIR LUMBER CO., INC., SALEM, OREG.

Mr. BONES. My name is Harvey Bones. I am president of the Mountain Fir Lumber Co., based in Salem, Oreg.

Our company has four sawmills, located across the State of Oregon, and approximately 350 employees. Therefore, we are classified as small business. Our livelihood and that of our employees for the last 30 years has been dependent on contract timber purchased from the Federal Government. We have always regarded this as a form of partnership between ourselves and the Government. That is, the Government sells a renewable resource to us; we invest capital and manufacturing facilities, provide employment, and maintain some stability in the small communities where our plants are located. All of these things tend to provide some tax dollars for the Government, the States, and the counties for roads, schools, and so on.

We now find that our partner, the Federal Government, has changed the economic rules and the priorities, leaving us to suffer the consequences alone. I am referring to the massive volume of uncut timber under contract, at prices that are devastating in these economic times. It appears the only chance to avert total disaster in our industry is the proposed bill by Senators Hatfield and McClure.

Please keep in mind that this proposed bill is not a "bailout," as some have branded it. Forty percent termination still leaves billions of feet of timber to be cut at exorbitantly high prices, and the volume proposed for termination is still in place for resale. Both the States of Oregon and Washington have recognized this situation and have provided means to get volumes of timber removed from State-owned lands and at least provide some employment. This only represents a very small percentage of the timber, and we are now starting to see business failures.

Rather, this bill should be viewed as it is—an action by the Federal Government to preserve the small timber operator, insure competition in the industry, and reduce the specter of concentration in the industry. This can be viewed indirectly as a jobs bill, and it would help us, the small operator, to retain thousands of jobs for people who are largely blue collar workers, not white collar. Please keep in mind that this bill is not viewed as a "bailout" to these people; it is viewed as a lifeline.

It is my personal opinion that without the proposed bill, there would be almost complete business failure in the independent and small business category of the wood products industry. In fact, there will most likely be severe devastation to both large and small alike. Where does this leave the Government, when the only segment of the industry that is left to compete in the marketplace is a few of the very large multinational corporations. The fact remains, it is the independent operators who are desperately trying to operate and survive in these economic times. As the termination dates for these contracts come due, you will see the demise of the backbone of our industry, the small independent operator.

I have never understood the attitude portrayed to the public by various press and news media that the high-priced timber under

contract represents some type of ripoff of the public by the industry, and that industry should be punished in some way. What that timber represented, at the time it was purchased, was a raw material sold by the Government at prices that would afford the purchaser continuing operations, based on the economic climate and predictions—even by the Government—at the time of purchase.

Small timber operators did not create the economic inflation in the late 1970's. Perhaps like everyone in business, Government, individual home purchasers, consumers, and the international economic community, we may have contributed to that inflation. Some want to hold us more accountable and therefore deserving of bankruptcy, ignoring the reality of our economic system—our dependence on Federal timber and the bad results that will flow from this situation if S. 2805 is not enacted.

It is not reasonable to even forecast or prudent to hope that the economy is going to reinflate to a point in the next several years to afford the harvest of this timber. It cannot happen. The Government is not going to collect those pent-up dollars that statisticians have calculated are out there uncollected in the stumpage payments. With no dollars being generated by the purchaser, there is no way to collect.

I strongly request that the House, Senate, and the administration consider the proposed bill that would allow up to 40 percent of the timber to be reclaimed by the Government and resold at prices that are in the scope of the newly developed economy. In doing this, the Government would increase their odds on collecting the stumpage price on the remaining 60 percent of the volume, generate the dollars on the 40 percent of the volume when it is resold at current values, and not only protect what little employment is left in our industry but allow a recovery from unemployment by reestablishing jobs that are not going to be re-created if massive bankruptcy occurs.

In closing, I really personally find it very hard to segregate small from large. Many of the markets, such as byproducts, chips for pulp mills, veneer for plywood, are sold by small operators to large businesses to help them survive. Lastly, who are we to discriminate for or against people because they are employed by either large or small business.

Thank you.

STATEMENT OF MICHAEL E. BURRILL, PRESIDENT, EUGENE F. BURRILL LUMBER CO., MEDFORD, OREG.

Mr. BURRILL. Mr. Chairman, my name is Michael Burrill. I am the President of the Eugene F. Burrill Lumber Co., located in Medford, Oreg. I am also the current president of the Northwest Timber Association, a trade association of independent small business lumber and plywood manufacturers in western Oregon and southwestern Washington. Today, I represent the views not only of myself and the members of Northwest Timber, but also the majority of the small business producers in Oregon. In my testimony today, I will share with you my views as to S. 2805 and its importance to the forest products industry and, more importantly, its effects on small business.

Before I get into my prepared statement, I would like to request the opportunity to submit for the record a statement for John Stevens, who is the president of Roseburg Lumber Co. Roseburg Lumber Co. is probably the largest independent wood products producer in the country, started by one man and still under the ownership of that man. They have suffered losses in the neighborhood of $50 million over the last 2 years, and they are having problems along with the rest of us. If you would accept his testimony, I am sure he would appreciate it.

Senator BAUCUS. Certainly, his statement as well as others will all be included in the record.

Mr. BURRILL. Before I continue with the prepared part of my statement, I would like to discuss a little bit about the company that I represent. Our company started about 40 years ago. Like many other family owned operations, I am the second generation. I have some sons coming along that are continually talking to me about when their day will come when they can start working in the sawmill. We employ about 130 people, so we are small business. We process about 35 million feet of logs each year. To have an efficient operation, we find it necessary to try to carry an inventory of timber ahead to give us somewhere between 2 and 3 years of inventory, so we have the opportunity to be somewhat flexible in our operations.

We rely nearly 100 percent on timber that we purchase from the U.S. Forest Service and the Bureau of Land Management. The comments that Mr. Bones made about the change in the economic climate and the problems we face, I would like to reiterate my position on that, for we share the same opinion. Things have changed. We are not poor business people; I think that we are good business people. But conditions change. We are gambling way out in the future. With these changing conditions, it has put us in a pretty drastic position.

The problem facing the forest products industry today is not one that can be divided between large and small business. What we also have is an industry problem that must be solved not on a regional basis but on an industry basis. The forest products industry, both large and small, have been working on the problem and its solutions for nearly 1½ years and have made great strides in developing and reaching a national industry position. Any attempt to modify the content of that position will only serve to divide the industry and to render S. 2805 ineffective as to its ability to solve the problem.

The problem facing our industry today is really divided into two parts. The first part is that due to many causes, generally brought about due to the collapse of the housing industry, purchasers of Government timber have curtailed operations to the point that a backlog of timber sold but uncut has increased to a level of nearly 18 billion board feet. With this large volume under contract, and a home building industry that is in a continuing depression that is now 3 years in length, demand for our products is so low that even if the cost of this timber was at prices profitable at today's market, we still could not have sufficient markets to utilize the volume. This problem actually has grown to the point that even if we had a sustained recovery, the contracts could not be fulfilled within the

original contract dates or in the time now available with extensions from the Forest Service and the BLM.

The second part of our problem is that most of the 18 billion board feet under contract is priced at levels far above the break-even point on today's markets. Market prices for our products have declined from 25 to 50 percent during the life of the recession, and even today are not showing any definite signs of recovery or even giving us any real hope in the short term. Inflation of our product prices would have to be extremely high to allow purchasers of the timber to survive, even if we disregarded the termination dates. The liability facing purchasers of Government timber in many cases will run from three to five times the net worth of the purchasers.

In line with that last statement I made, I testified at a hearing about 3 months ago. A gentleman from the Forest Service was asked what the Government's normal recovery is on defaulted timber sales. The testimony that was entered that day was that their historical levels are something in the neighborhood of 25 percent.

The solution to the problem can only be in one of two directions. If we do nothing and let the contractual language dictate the solution, we will have a disorderly solution with side effects that will affect all segments of the industry, with massive bankruptcies to the small business sector. If we do something, that something must be significant enough that an orderly solution will occur. Going not quite far enough will still leave a disorderly solution as the only alternative. There are those who think that if we ignore the problem, it will take care of itself and purchasers will have to harvest the timber. I can tell you, without qualification, that these people are totally ignorant of the realities of the situation.

Again, varying from my written statement, when you look at the losses that would be incurred by the majority of us, there is absolutely no way at all that we could harvest the timber that we have under contract, even if we wanted to. We could not do it; the money is not there.

If the forest products industry in this country is going to survive in a form that will be able to even maintain the current levels of production, let alone be able to respond to future demands placed on it, we must face the challenge and make the proper decisions. I urge you today to meet the challenge, face the problem, and support S. 2805 in its present form. The importance of this piece of legislation to small business cannot be overemphasized. Without help, most of us will not survive. The result would be concentration of the industry. Again, it is our feeling that for S. 2805 to pass, it must be in its present form.

What will bankruptcies do to the industry? What is in the best interests of the people of this country? Some day we are going to have recovery; I am confident of that. I believe in this country, and I believe in its ability to pull itself out of the recession or the depression that we are in at this time. The concern I have is that if we have destroyed the major producing part of the wood products industry before that recovery comes, there will be nothing left to meet the demands placed on that segment of the economy when the recovery does come. Because of that and because of the fact

that our industry prices are set by supply and demand, I can tell you that you would see product prices— lumber and plywood—skyrocketing to levels that you have never seen before, and that does not solve the problem.

Thank you.

[The material follows:]

STATEMENT OF
JOHN J. STEPHENS
PRESIDENT, ROSEBURG LUMBER CO.
ROSEBURG, OREGON

SUBMITTED TO THE
SENATE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION

December 8, 1982
Washington D.C.

Roseburg Lumber Co. is a family-held corporation with facilities located in Coos and Douglas Counties, Oregon, and in northern California. Our company normally employs more than 4,000 people in seven different geographic locations.

We appreciate the interest of the Senate Committee on Small Business in examining the impact of the present economic situation on small and independent business. Roseburg Lumber Co. is not a small business as the SBA defines it for purposes of the timber industry. But we are an independent business which is suffering injury alongside our smaller colleagues in this industry. Our communities, too, are suffering in the same way whether from the inactivity of a small business mill, the inactivity of a larger independent company's mill, or, indeed, even from the inactivity of the mill owned by a large, integrated producer.

Our company is faced with a very weak wood products market. This condition has been created by a change in federal policy dealing with the capital available for housing and other economic programs that are intended to bring down inflation.

At the same time, we are burdened with a number of very high-priced federal timber contracts that had been bid during the late 1970's under a different set of federal policies.

As a result of these pressures, a weak market and high-priced timber contracts, our company is in trouble today and our employees are paying the price for this battle against inflation.

Total employment by our company peaked at just under 4,000 in 1977. We now have less than 3,000 people employed, and a portion of those who are employed are working on a curtailed basis.

This condition is not a temporary situation. Almost 1,000 of our employees have been laid off for two years. Throughout the western wood products industry about 60 per cent of all of the facilities have either been shut down or are operating on a curtailed basis. The unemployment in Douglas Couty, Oregon, is consistently running at 20 per cent and the wood industry in the same county has been curtailed by about 40 per cent.

Because of the high unemployment and loss of county timber receipts, the state, county and municipal funds have been slashed. In our communities we are seeing the loss of critical public services such as fire and police protection, a reduction in school curriculum offerings and a general collapse of social services.

Overall, approximately 80 per cent of the outstanding government timber sales contracts in our operating area are economically inoperable because of the condition of the wood products market.

The price of #2&Btr 2x4 lumber in 1979 was $260. By this fall, it was $150.

At the same time, lumber imports from Canada have increased their share of the U.S. market from 20 per cent to more than 30 per cent within the last several years. Canadian lumber producers are subsidized by reduced stumpage costs and favorable freight rates which enable them to be unusually competitive under the conditions that now exist. This way, Canada can export their unemployment to our markets.

Our company has always been heavily dependent upon public timber to provide employment, support our communities and service our customers. During the 1970's we were treated to reports by the U.S. Forest Service that predicted timber shortages because of continuing strong housing demand and other demands for wood fiber. At the same time, a number of studies were underway that held timber-producing land out of producdtion while it was decided whether or not these lands should be set aside for other purposes. This created for us a perception of an uncertain future timber supply.

The result was that we bid against our competitors, who were also anxious to secure future supplies of raw materials and dramatically ran up the price of federal timber. This is a highly competitive industry. Our alternative was to not bid for the timber and run the risk of shutting down our facilities for lack of supply.

With the collapse of the wood products industry, we found a large portion of our inventory of contracts economically inoperable. Operating these contracts would cause significant losses and liquidate our corporate net worth. In fact, in order to maintain some level of employment in our communities, we have been operating for more than two years now at a total loss of more than $50 million, even after taking every possible cost reduction move that we could.

We are faced today with the altenative of defaulting on many of our public contracts, an alternative that is also available to many of our competitors. If this occurs, the government will spend a considerable amount of time and money attempting to collect default damages. In many cases they will be unable to collect from companies that will have gone bankrupt.

At the same time, a rash of defaults will flood the timber market with sales that the government must reoffer as a part of trying to collect damages. For the longer term, defaults and bankruptcies of our independent companies will further concentrate the industry in hands of fewer and larger companies. We have already seen the permanent closure of a number of our wood products competitors in Oregon in the past year.

The alternative of default and further bankruptcies cannot be acceptable. After all, one party to our timber contracts had the power to change the basic rules by which the economic game was played. I am now appealing to that party--the federal government--to modify the contracts by providing us an orderly way to continue in business and to fulfill our obligations.

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I believe that we should be permitted to terminate a portion of these contracts as is provided in Senator Hatfield's bill. The terminated contracts should then be considered a part of the normal timber contract program of the USFS and the BLM so as to reintroduce those volumes to the market in an orderly way.

The remaining contracts should be extended to enable us to introduce that volume as the market requires. This should improve the management of the national resource since it will be introduced to the market as market demand improves. This will enable us to continue providing employment, revenues to our communities and cost-competitive building materials to our nation. We should be able to buy new timber sales at prices reflecting the present timber we hold under extended contracts, we would have a somewhat better opportunity to operate, and thus might at least break even. We would move ahead with our road construction programs, reintroducing jobs in that sector. We can then go back to the business of effectively competing on a cost basis against Canadian imports and give our management attention to building for the future rather than to this burdensome problem.

Senator BAUCUS. Let me ask the first question to each of the three, and that is the degree to which your firms participate in the set-aside program. Give me a rough idea of the extent to which you do and whether you are representative of other small businesses in your States.

Mr. BURRILL. We are quite involved in the set-aside program. In the national forest system and the BLM, where we do buy our timber, it is a very active program. In my opinion and I think I can say in the opinion of those people that I do represent, the people in my community that are involved in the small business program, there is no doubt in any of our minds that without the SBA program, we would not be here today. If the program was abolished for whatever reason or modified as to make it ineffective, our life would be very short.

Senator BAUCUS. What about you, Harvey?

Mr. BONES. Exactly the same comment.

Mr. JONES. We have about only one set-aside sale in our history. We are in what is basically a small business forest. Almost 80 percent of the timber bought in the Malbakers-Miquallamy is bought by small business. The program has never been triggered in our area, yet.

Senator BAUCUS. What about the special salvage timber sale proposals that SBA talked about. Will that help very much or not?

Mr. BURRILL. In our area it would have very little impact because of the fact that there are no producers that are that small. We have down to maybe 60 to 70 employees, but that would be the smallest.

Senator BAUCUS. Would you recommend they raise their number above 25?

Mr. BURRILL. My personal feeling would be no, I would not recommend that they change it.

Senator BAUCUS. I understand that the special salvage timber program now applies to firms of 25 employees. Do you recommend that number be increased so larger firms could take part?

Mr. JONES. The only operators I am aware of that have facilities are some of the shake mills that have under 25 employees, besides some of the loggers. They are satisfied, the small loggers in our area, with the program as it now exists.

Senator BAUCUS. Mike, I wonder if you could expand a little more on how widespread the potential is for default and bankruptcy among firms roughly of your size in your area?

Mr. BURRILL. It is difficult to say exactly how widespread, but I think that I am not unlike the majority of the industry. I think most of us live on a like volume of timber relative to our production capacities. It may be up a little bit or down a little bit. There are some in our industry that have attempted to live with very low volumes of timber, and of course they are opposed to any relief for us. They think that they made the right decision. But I can tell you that the majority of the industry is not in that position. The majority of the industry is in the position of having timber under contract.

The problem we have is, it is difficult to measure when we reach the edge of the precipice, where we fall off the other side. Each one of us has a different situation. We can hang on for so long, but all

of a sudden we cannot hang on any longer. I am in the process of predicting myself for our own company when we would reach that point if we do not have any relief at all, and if we do not have any recovery that would allow us to continue beyond that. I would estimate that for our company we would reach that critical point in late 1983 or early 1984. I think I could survive until then. Other companies cannot do that. I think others are going to reach that point sometime in the spring of 1983.

Senator BAUCUS. In your judgment, would conditions vary in different geographic parts of the country?

Mr. BURRILL. Yes, they are.

Senator BAUCUS. Explain, please, how they vary.

Mr. BURRILL. The west side of Oregon and Washington is probably the area that has felt the greatest impact, because of the fact that we had a perceived shortage of timber that was brought on by many conditions—everything from wilderness considerations to setting aside of lands for stream protection, for buffer zones around long roadways, fisheries, and many things. All these things we could see were taking away from the timber that is available to be harvested. Because of that, any time you have either an actual shortage or a perceived shortage, when you are working with supply and demand, you are going to have a scrambling for what material is available. As you scramble to try to tie up volume for yourself, that is going to drive prices up. It is just the way the system works. The shortage was most critical in the west side of Oregon and Washington.

The problem is that you cannot completely say that there is no effect on the rest of the country. What happens to us is that we produce by far the majority of the volume of softwood that is produced in the United States. If we allowed the normal course of events to take place, which would mean we cannot harvest the timber and therefore by the terms of the contract we default on the contracts, the Government has to go through a process of reselling the volume, damages are incurred by us, and it can go to bonding companies that bond for us to allow us to buy these timber sales. They can no longer afford to issue bonds to those of us who want to purchase, so they pull out of the market. As the timber is resold in massive amounts, it drives the price down and affects other people in the industry, whether they are in the South or whether they are in the Mountain States. It has its rolling effect, because we are all in one country. Whatever happens in one area will gradually spread and have its effect every place else.

The same thing on the problem of big versus small. You could say that the bigs do not deserve any help. But that is not the question. The question is, if you give relief to the small and ignore the big, there are going to be a lot of bigs that go also. When they go, the rollover from that is going to affect the smalls.

Senator BAUCUS. I understand. As you know, there are some here in the Senate who want to differentiate between the small and the large. We, frankly, have a bottleneck right here. Some want a contract termination bill that tends to favor smaller outfits more than it does larger; on the other hand, the larger are in very difficult straits too, and they want relief. The industry itself does not want to be divided; they want to hang together. There are all these con-

flicts and strains going on here, and I am just trying to find out some way, as a practical matter, to get a bill through on contract termination, whatever it takes to get one through. It might mean a little give and take. The bigs might have to give up a little bit, and maybe the industry might have to be separated a little bit. I do not know. I am throwing that out as a possibility to help get a bill passed this year.

I know you are familiar with the ninth circuit court of appeals decision, which basically held that wilderness areas in California have to be reevaluated with respect to a potential wilderness. How is that decision going to affect your operations? As I understand it, the ninth circuit said that the Forest Service has to restudy and reevaluate all those wilderness areas.

Mr. BURRILL. I think the immediate impact from that is going to be minimal in our area. I think that the groups that brought about that decision in California do not want to create a climate of urgency to the extent that they lose control of what it is they are after also. I think creating a state of emergency, by pushing this and applying it to so many areas that it just stops the entire program, Congress is going to become so involved that they are going to push something through very fast, and maybe these groups then would not have the input that they desire. Based on that, I do not think it is going to be our most important problem in the short term.

Senator BAUCUS. You think the Congress is going to act fairly quickly because of that decision in a way that is going to free up some of the wilderness areas and put them back into the timber base?

Mr. BURRILL. No, that is not exactly what I am saying. The groups that are pushing this, if they created an extreme situation, where Congress had to act very hastily, these groups may not get what they really are after. My thinking is that they are not going to try to push into that. They are going to try to take the time to work this out slower, where they can get maybe more. I do not think we have a really urgent situation because of that.

Senator BAUCUS. To what degree does the historic inflow of Canadian softwoods affect your industry? I understand that about a year ago about 30 percent of American softwood consumption was Canadian. I further understood that has been cut back a little bit because the Canadian market is down, too. I am curious.

Mr. JONES. I think in the Puget Sound region, which is heavily impacted by Canadian imports across the border, it has stayed pretty constant.

Senator BAUCUS. Is that a significant problem facing the industry?

Mr. JONES. It has been a problem the past 6 years, especially since the recession hit us. We find ourselves competing against Canadian prices every day in the market, our salesmen do.

Senator BAUCUS. I know you have heard the statement—and you, Gary, touched on it briefly—"Well, you fellows knew the rules. You bid on these sales. You thought the market was going to go up and housing starts are going to be 2.2 million, interest rates low, and so forth. You just gambled and you lost. You have to take your lumps like everybody else." I know you have heard that statement made by several. In fact, some in the industry even say that. I have

heard guys in the industry tell me that. Of course, they tend to be better situated operators who are not hurt by this much. But what is your response to that?

Mr. JONES. I tried to answer that in my testimony, and maybe I can answer a little bit further. Our feeling has been that when we bid the timber sales we bought, we bid on them with business decisions. We used factors that were current. They had worked for 3 or 4 years. Then, all of a sudden, the rules have changed. I did not know of anybody who did not predict housing starts to continue where they were for a period of time, and even some of the big data resource companies have done that kind of thing. We had felt it happen for 5 years.

I think everybody was uncomfortable in what they were doing, but they felt that within reason we could survive. I think the biggest factor along with that—it was twofold in the bidding. Mike talked about it briefly. We had no idea what was going to happen. We had seen the supply in our area cut almost in half in a 10-year period of time, as far as saleable volume. It got to be either you buy wood now or you do not buy it at all.

Senator BAUCUS. Are you saying, too, that conditions are just a lot worse than anybody reasonably could have foreseen? Is it a question of either some relief to help a guy stay alive or no relief and the guy will just go out of business? Is that what it comes down to?

Mr. JONES. I think that is what it comes down to. I know of about probably four to five mills in the Puget Sound area that are in the same boat we are. No question.

Senator BAUCUS. What about the charge that others make, which is that if we pass this contract termination bill and forgive 40 percent of the contracts, industry will go back and overbid a lot of these sales again.

Mr. BURRILL. Senator, I think it is how you look at what is overpriced. If you go back to the point in time that we were operating in when we bought these sales, we bought them within a plan. We made our projections. We estimated what we thought reasonably could be expected, looking into the future. You have to realize, like I said, that we were running out there 2 or 3 years ahead. In some cases, we have sales running out there 4 and 5 years. So when you buy a sale like that, you have to put a reasonable assumption of where you are going to be at some point in time. I think the frightening part of it is, that is part of business. We do somewhat the same right now, even in today's economic climate. We buy a sale; we try to make projections as to where we are going to be. Instead of making projections of 8- to 10-percent inflation rate, maybe now we are talking about a 2-, 3- or 5-percent inflation rate.

In any business you make projections. That is what we do.

Senator BAUCUS. Mr. Harwood, at this time if you have a statement to make, it would be a good time for you to make it. We have been chatting a little bit about the contract termination bill, the conditions in the industry generally, and so on. Your statement probably would make some of the same points that they have made, but we would still like to hear you.

STATEMENT OF ARTHUR H. HARWOOD, HARWOOD PRODUCTS, WILLITS, CALIF.

Mr. HARWOOD. I apologize for being late, Senator. I got tied up. It seems as if all senators are busy around this place.

I do not want to repeat what the other people have said, but I will say this. Our company is from the northern part of California, Mendocino County. We are one of those companies that has contract under contract that if we had to honor, as a small company we would not be able to survive in the future. We do not see any relief coming in the short term or the long term that would enable most small companies of our size to ever be able to survive and operate timber as it is bid today.

One of the areas that several people back here are concerned has been that this legislation that we are talking about would be a "bailout" for big business. I would like to make the point that yes, this legislation would help big business, but it would help small business more than it would big business. A small company, by its nature, for the most part does not have the economic muscle that large companies have. We do not have the borrowing capacity. Most big companies, in our area anyway, have been able to buy their companies using stock. You are from Montana, and I know companies that have done that up there. They have traded off stock instead of cash for a lot of things that they buy.

Most big companies in our area have large resource bases behind them, so that they are able to water down these high timber sales. Most of them will survive because of it. What will happen is, most of the small companies are going to go down the tubes if some kind of relief is not forthcoming in the future. Really, most of the large companies, although they will be pretty much bloodied up, are going to survive in some form. So what you will have is a much smaller percentage of the overall economic base in the forest industry concentrated in larger companies again.

Senator BAUCUS. Could you tell me how the number of board feet of timber harvested proportionately under the set-aside program would compare with the proportionate aid that would accrue to small business if the contract termination bill becomes law. I am trying to get a sense of whether the proportionate breakout of percentage aid to small business versus large business under each of the two programs is about the same.

Mr. HARWOOD. I am sorry, I was not able to get all of what you said.

Senator BAUCUS. It is a little complicated. As I asked Mr. McDermott, I determined that about 20 percent of board feet was harvested under the set-aside program. I am wondering whether 20 percent of the value of this contract termination bill would accrue to small businesses as opposed to big business, or would that percentage be different.

Mr. HARWOOD. Well, this would change in different States and in different forests, I would think. Every forest has a different percentage of a small business set-aside, and you have different amounts and percentages.

Senator BAUCUS. Average percentages, all together across the country. For fiscal year 1977, it is about 21.2 percent of total

volume set-asides for small business, and it is about the same for each of the subsequent 4 or 5 years. My question really is the degree to which the contract termination bill helps small business as opposed to big business.

Mr. HARWOOD. We feel that it would help small business more than it would big business, for the reasons that I was saying. If small business does not get some help, it is not going to survive. Large business, for the most part, because of their assets base, is going to survive if they do not get relief. Now they are going to be very bloody and some of them will not survive, but for the most part small businesses—at least the ones in California that I am familiar with; and I understand in Oregon it is even worse; and in Idaho, Montana and those areas I am not as familiar——

Senator BAUCUS. I understand the point you are making: That small business is in worse shape, and therefore they will get more benefit from the bill.

Mr. HARWOOD. That is right.

Senator BAUCUS. I am just curious, not that it is relevant, whether 40 percent of the contracts are terminated, whether 20 percent of that 40 percent would be small business or whether 80 percent of that 40 percent would be small business.

Mr. HARWOOD. I would assume that it would be pretty much however the percentages were that were worked out.

Senator BAUCUS. Do any of the others have any reaction to that question?

Mr. BURRILL. In addition to that, relative to that large business comment that I was sharing with some of my colleagues this morning, in our industry large business does not necessarily mean that you have a large facility employing thousands and thousands of people in one specific location. In the West, most of the large lumber-producing companies are actually a group of manufacturing facilities that may at one time have been small business but they may employ 120 to 130 employees at each location. We have a lot of communities that are dependent on each one of these little segments. So to say that big is bad in that respect, to take them out and wipe them out, you have not just hurt one area, you have hurt many communities that rely entirely upon them.

Senator BAUCUS. Speaking conservatively now, how quickly would market interest rates have to lower, and to what levels, in order to obviate the need for the contract termination bill?

Mr. BURRILL. I think in my testimony I made mention of the fact that even if we had a sustained strong recovery, the problem is that we have pushed back and pushed back and pushed back the volume that is there until we are reaching a critical point. Even at 2 million housing starts or 2.2 or something, the demand that would be created there still probably could not eat up the timber that is under contract within the dates that we have to live with. So, just lowering interest rates to 2 percent and saying that is going to stimulate housing and it will solve our problem, it will not solve our problem.

Mr. HARWOOD. I would like to comment on that, Senator, primarily to our company and our region. We have been going on in our company for 4 years of decreased prices, and we have not been operating the sales that we have had. We have been getting exten-

sions. What is happening to us is that the value of our resource, our lumber, has been dropping over these 4 years, and our costs and inflation have continued to go, and our costs have continued to rise. If we go back to where we bid these sales, say 4 or 5 years ago, and start bringing it back and add the inflation factor into it, and if we are able to keep inflation down to somewhere near the levels where we are now, a large portion of these sales will never be operable. We do not think we will ever be able to do anything with them, even if the economy improves and interest rates come down.

Mr. JONES. I agree with that. Senator Inouye just handed me information that about 68 percent of all the timber under contract is under contract to small businesses.

Senator BAUCUS. Is that about the same precentage in prior years?

Mr. JONES. I would guess. But you were quoting the 20- to 23-percent figure, in our area for example, we have the set-aside program but it has never been triggered. It has never actually been used. So we buy not in the set-aside program. So small business buys far more than the small business share.

Senator BAUCUS. That is a good point. The figures that I was reading that have just been drawn to my attention were the percent of total volume set aside for small business—roughly 20 percent—and there is another set of figures which is the percent of total volume awarded to small business, and that was 49.2 percent in fiscal year 1977, 53 percent in 1978, 55 percent in 1979, 50 percent in 1980, and 55.5 in 1982. I appreciate your drawing that point to my attention.

To keep the record clear on this point, I feel I should read a part of a letter into the record. This is a letter from the Small Sawmill Owners Association, Chico, Calif. Perhaps some of you have seen this letter or are aware of it. This is a group of 101 sawmill owners, who employ 25 or fewer employees. The letter, in part, states as follows to Senator Hayakawa, Senator Cranston, and various other Senators and Congressmen, primarily the California delegation, from Mr. Paul Arend, president of the association:

> Our association members all are in opposition to this bill, because they were prudent in bidding and purchasing forest service timber. This bill seems only to help certain large companies who have bid speculatively on these contracts. They should have realized the inflationary spiral could not go up indefinitely. For example, of the 5 billion board feet of timber, the contract for Region V as of December 31, 1981, only six companies of approximately 80 purchasers have 3.2 billion board feet of that.

One other paragraph:

> All of the companies involved in the timber industry are suffering from the current economic conditions, but this bill will only bail out a few, and there is nothing for the majority. Either we are unable to purchase timber because of the speculation in bidding or fulfill their contracts to the Forest Service. Forest Service regulations on default are to help prevent the bad business practices of these companies. We say, Let them stand and weed out reckless operators. If the industry is to be helped by the Government, let it be something that will affect all the companies in trouble, not just provide welfare for the few.

The question is whether you are familiar with this group and whatever comments you might have in rebuttal to their letter to us.

[The material follows:]

Small Sawmill Owners Association

Post Office Box 3524
Chico, California 95927
(916) 891-5320

November 29, 1982

Dear Senator S.I. Hayakawa
Senator Alan Cranston
Senator Jessie Helms
Senator William Proxmire
Senator Howard Metzenbaum
Senator James Mc Clure
Congressman Gene Chappie
Congressman Don Clausen
Congressman Larry Craig

Our association is writing to you in regards to the Hatfield S.2805 Timber Bill which may be coming up for vote soon. I am representing the opinions of our association of 101 sawmill owners who have 25 employees or less. We hope that our views and facts may help you in your decision on this bill. I thank you for your time in reviewing them.

Our association members are all in opposition to this bill, as they were prudent in bidding and purchasing Forest Service timber. This bill seems only to help certain large companies, who have bid speculatively on these contracts. They should have realized the inflationary spiral could not go up indefinitely. For example, of the five billion board feet of timber under contract in Region 5 as of Dec. 31, 1981, only six companies of the approximately eighty purchasers, have 3.2 billion board feet of that, listed as follows:

1. Sierra-Pacific Ind.....1,022 thousand board feet
2. Louisiana-Pacific Corp.....778 " " "
3. American Forest Products.....376 " " "
4. Diamond International Corp.....365 " " "
5. Southwest Forest Products.....293 " " "
6. Roseburg Lumber Co.....244 " " "

You will also find the same type of company have bought in the same pattern in Region 6. The hopes that this bill will pass and bail them out, seems to be encouraging these same companies to continue their high bids, in speculation, or in the plan of hoarding the timber.

The following are some random examples on just a few of our local forests of how these same companies are still overbidding on the timber sales.

Date	Sale Name	Forest	Company	% Overbid of the Advertised Rates
6/24/82	Butter Meadows	Shasta-Trinity	Sierra-Pacific	284
6/24/82	Mint	" "	Southwest Forest Ind.	342
"	"	" "	Louisiana-Pacific	339
7/15/82	Fisk	" "	Louisiana-Pacific	542
"	"	" "	Sierra-Pacific	353
7/21/82	Boswell	Mendocino	Roseburg Lumber	189
"	"	"	Louisiana-Pacific	174
8/4/82	Lake II	"	Louisiana-Pacific	499
8/25/82	Meadows Fire Salv.	Plumas	Roseburg Lumber	469
"	" " "	"	Sierra-Pacific	409
9/17/82	Gansner	"	Sierra-Pacific	320
"	"	"	Diamond International	283
9/23/82	Hollowpine	Shasta-Trinity	Sierra- Pacific	235
9/24/82	Dolta	Plumas	Sierra-Pacific	339

Also, we know these large companies have many assets in land, timber,buildings, etc. If they are in financial trouble, they could liquify some of these, instead of expecting welfare from the government.

All of the companies involved in the timber industry are suffering from the current economic conditions, but this bill will only bail out the few, and does nothing for the majority, who either were unable to purchase timber because of the speculation in bidding, or fulfilled their contracts with the Forest Service. The Forest Service regulations on default are to help prevent the bad business practices of these companies, and we say let them stand and weed out the reckless operators. If the industry is to be helped by the government, let it be something that will effect all of the companies in trouble, not just provide welfare for the few.

We feel the current Forest Service regulations on bidding the timber sales should be improved to alleviate the problems of speculative bidding, timber hoarding and other unwise overbidding practices. We suggest the following ideas for future rules to be adopted to help solve these problems.

1. All sales to be sealed bids.
2. No sale to have over three million board feet in a contract.
3. Maximum of a two year time period to log in a contract.
4. Road construction on a timber sale should be on a seperate contract.
5. Tree measured sales should all be completely marked prior to bid advertisement.
6. All logs to be scaled at an authorized Forest Service scaling ramp or mill yard. (Eliminating mill deck scaling)

We hope you will take our views into consideration if the bill S.2805 is brought up for passage, and defeat it. Our association would welcome the opportunity to work with the Congress or any committee in trying to find a more equitable solution to the condition of the lumber industry. If we can provide any further help, please do not hesitate to contact us.

Sincerely,

Paul Heyrend

Paul Heyrend
President

PH/dko

cc: Calif. State Assemblyman Doug Boscoe
Paul Bunyon Lumber Co.
Crane Mills
Lance Forest Products
United States Senators
President Ronald Reagan

Mr. HARWOOD. I would like to comment on that, if I could. I have a copy of the letter here. This is from the area of California somewhere near where I live. Frankly, until last night I had never heard of this organization, but since then I have been on the telephone, because I do know the man who signed the letter. So I have been on the telephone talking to Paul Hayrund who signed this letter, and I have been talking to the executive director of the association to verify whether it is actually an association. It is. This is an honorable man that signed this letter, and they have been incorporated for 1½ years.

What I did find out in my discussions with those people was that we may be talking somewhat apples and oranges here. Of this 101 people, there are 7 people on their executive board. When they talk about "small" they are talking about four to five people, family-run type of operations that do produce a little bit of lumber and they do it commercially—they sell some of it. They also say that a large group of their organization are people who produce lumber just for their own use.

I think we are talking about apples and oranges. There are very few, if any, of these organizations that are equipped to even deal with this forest service timber in any kind of volume. They do have volume set aside for them now, where people under 25 employees—I think we are dealing with a different issue here.

I might just continue to comment that the people where I come from, who are actual operators in small business, we are not in this list that is on the letter that you have. I am familiar with the people on that letter. The first one is Sierra Pacific Industries. I can tell you one thing: Sierra Pacific Industries has 10 operations there, and every one of them is in a separate small community. Those operations are in communities like in our communities, almost 100 percent dependent on those operations. So you are not talking about one great big giant thing; you are talking about 10 communities that happened to be owned by Sierra Pacific Industries. You are talking jobs and putting people to work with this thing. Although we have spent a lot of our lives struggling to compete with big business, what is fair is fair.

Senator BAUCUS. So your point is, based upon what you have been able to determine thus far, these 101 operators tend to be very small operators, with maybe three or five employees, who perhaps do not bid very much on BLM or Forest Service sales?

Mr. HARWOOD. They are not satisfied. I have talked to Paul Hayrund this morning. They are not satisfied with what the Forest Service is doing for them and the amount of resource and timber that they are getting. They are telling us—it really was a kind of a surprise to us to see this letter. They are telling us that they tried to make this letter as strong as they could. They want some concessions out of the Forest Service; that is what they are after. Maybe they need some; I do not know. But to shoot down our whole program and all the problems that we have—we are talking about hundreds of jobs and hundreds of people here. And you are not talking about very much there.

Senator BAUCUS. Before we move to the second panel, do any of you have any final points you want to make?

[No response.]

Senator BAUCUS. Thank you all very much.

[The prepared statement of Mr. Harwood follows:]

HARWOOD PRODUCTS, P.O. Box 609, Willits, CA. 95490 TEL: (707) 459-5595

HARWOOD PRODUCTS IS AN INDEPENDENT FOREST PRODUCTS COMPANY LOCATED IN MENDOCINO COUNTY IN NORTHERN CALIFORNIA. WE PRODUCE 100 MILLION FEET OF LUMBER PER YEAR, EMPLOYEE 350 EMPLOYEES AT THE PRESENT TIME AND ARE THE MAJOR EMPLOYER FOR TWO COMMUNITIES, LAYTONVILLE AND WILLITS, CALIFORNIA.

OUR OPERATIONS DEPEND ON PUBLIC TIMBER FOR 50% OF OUR RESOURCE AND AT PRESENT WE HAVE 100 MILLION FEET UNDER CONTRACT THAT TODAY WE WOULD LOSE UPWARDS OF TWENTY MILLION DOLLARS IF WE HAD TO HONOR THOSE CONTRACTS. WITH A NET WORTH DEPLETED TO PRACTICALLY NOTHING OVER THE PAST FOUR YEARS, THIS WOULD BANKRUPT US.

THE FOLLOWING OUTLINE IS A BREAK DOWN OF THE PROBLEMS THAT WE ARE FACING:

I. ECONOMY

1. THREE TO FOUR YEARS DEPRESSED MARKETS HAVE DROPPED THE VALUE OF PRODUCTS SOLD AS MUCH AS 50%.

2. INFLATION OF COSTS CONTINUE.
   a. GOODS AND SERVICE
   b. INTEREST

3. FIXED COSTS ARE UP DUE TO LOWER PRODUCTION LEVELS.

II. WHY MOST SMALL BUSINESSES ARE MORE VULNERABLE THAN BIG BUSINESS

1. THERE ARE LESS RESOURCES AND NET WORTH TO BACK UP OPERATIONS.

   a. FOR MOST PART THEY ARE YOUNGER AND GROWING.

   b. ALMOST EVERYONE IN THE FOREST PRODUCTS INDUSTRY IS LOSING MONEY AT PRESENT.

   c. SMALL COMPANIES DO NOT HAVE THE ABILITY TO ABSORB LOSSES THAT BIG COMPANIES DO.

2. HIGH DEBT SERVICE.

   a. SMALL COMPANIES HAVE TO FINANCE EVERYTHING BY BORROWING FROM BANKS.

   b. LARGE STOCK COMPANIES DO NOT GENERALLY HAVE THE DEBT SERVICES THAT SMALL COMPANIES DO. MUCH OF THEIR DEBT IS COVERED BY ISSUING STOCK INSTEAD OF BORROWING.

3. LACK OF FLEXIBILITY TO DIVERSIFY.

   a. MANY SMALL COMPANIES DEPEND ENTIRELY ON HIGH PRICED PUBLIC TIMBER.

b. MOST LARGE COMPANIES HAVE LARGE TIMBER HOLDINGS AT A LOW BASE AND ARE NOT SO DEPENDENT ON PUBLIC TIMBER.

c. MOST SMALL COMPANIES ARE LOCKED INTO ONE PRODUCT AND INTO ONE COMMUNITY.

d. MOST LARGE COMPANIES HAVE BROAD PRODUCT LINES AND ARE NATIONAL OR MULTI-NATIONAL.

4. ACCESS TO MONEY

a. SMALL COMPANIES DO NOT HAVE THE ACCESS TO MONEY NOR THE FAVORABLE INTEREST RATES THAT BIG COMPANIES DO.

III. SURVIVAL OF SMALL BUSINESS COMPANIES

1. SMALL COMPANIES DO NOT HAVE THE STRENGTH TO SURVIVE THIS DEPRESSION IN OUR INDUSTRY AS WELL AS BIG COMPANIES.

2. MOST SMALL COMPANIES THAT DEPEND ON PUBLIC TIMBER AND HAVE A LARGE AMOUNT UNDER CONTRACT WILL NOT SURVIVE IF SOME SORT OF RELIEF IS NOT GRANTED.

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3. IF AND WHEN ECONOMY TURNS AROUND THERE WILL BE EVEN FEWER SMALL COMPANIES LEFT IN THE WOOD PRODUCTS INDUSTRY IN PROPORTION TO THE LARGE.

4. SOME LARGE COMPANIES WILL FAIL, BUT MOST, ALTHOUGH HURTING BADLY, WILL SURVIVE.

STATEMENT BY

ARTHUR H. HARWOOD
DECEMBER, 1982

Senator BAUCUS. Our next panel is Mr. Richard Bennett, Bennett Lumber products, in Princeton, Idaho; Mr. Joe McCracken, Western Forest Industries, in Dillon, Mont.; Mr. Edward Lapeyri, Mitkof Lumber Co., in Petersburg, Alaska; and Mr. Arnold Ewing, Northwest Timber Association, Eugene, Oreg.

Gentlemen, proceed.

STATEMENT OF RICHARD G. BENNETT, EXECUTIVE VICE PRESIDENT, BENNETT LUMBER PRODUCTS, INC., PRINCETON, IDAHO

Mr. BENNETT. Mr. Chairman, I am Richard G. Bennett, executive vice president of Bennett Lumber Products, Inc., Princeton, Idaho. I will summarize my prepared statement, but I would like my full statement entered into the hearing record.

Bennett Lumber Products is a family-owned business, operating two sawmills in northern Idaho, operating with three full generations of the same family. A full capacity of these two facilities produced approximately 85 million board feet of lumber each year. We employ some 220 people. I would add, Mr. Chairman, that my father owns the Guy Bennett Lumber Co., in Clarkston, Wash. He associates himself and agrees with this testimony.

I am pleased to appear at this hearing to describe how SBA-qualified timber companies have been adversely affected by the slowdown in the national economy. As you know, most of America's basic natural resource industries have suffered during the past 3 years as interest rates increased and housing starts declined. Bennett Lumber was not unaffected by the distressed condition of the economy. We have suffered through the hard times, just like every other lumber manufacturing company. I note, for instance, that we have operated at less than 75 percent of capacity during the years 1981 and 1982. Until just recently, I believed that strong management would be sufficient to insure survival in a currently depressed lumber market. I am not so sure any more.

In addition, the Ninth Circuit Court of Appeals recently handed down its decision in a lawsuit that challenged the adequacy of the RARE II environmental impact statement. That decision will immediately and significantly reduce the volume of timber offered for sale by the Forest Service. Such reductions will come because the court's decision essentially prohibits timber harvesting within all roadless areas until the Forest Service fully satisfies the requirements of the National Environmental Policy Act. The appeals court decision will hurt both large and small Federal timber purchasers. However, the small nontimber-owning companies will be hardest hit. For that reason, this subcommittee should keep a watchful eye on that situation.

I have some Forest Service statistics about the effects of the court's decision on roadbuilding and timber sale activities within the nonwilderness Rare II areas. I call that material to your attention. I suggest it be included within the hearing record.

Those of us who operate in the inland forest regions hope the administration will work with Congress to develop legislation to overrule the appeals court decision. But regardless of the response adopted by the administration, there will be a period of time during which only minimal volumes of timber will be sold on na-

tional forests with a high percentage of roadless acreage. Many companies will be operating during this period, which could last from several months to several years, by cutting the timber they currently have under contract. Therefore, every step must be taken by the Federal Government to make existing timber sale contracts operable.

An equitable way to accomplish that goal is to make sure that purchasers of national forest timber receive prompt and fair reimbursement for the costs they incur when building permanent public access roads under Forest Service timber sale contracts. The appropriate way to assure such reimbursement is to make all purchaser road credits effective. This can be done by making the credits transferrable among timber purchasers and by allowing the credits to be applied toward the purchase of timber on any national forest in the same section of the country.

The purchaser road credit proposal I have just described is embodied in the timber contract relief legislation now awaiting action by the Senate. I urge the members of this subcommittee to assist small timber companies in the West by making secure the enactment of this bill. Mr. Chairman, that concludes my prepared remarks. I will be glad to respond to any questions.

[The prepared statement of Mr. Bennett follows:]

STATEMENT OF RICHARD G. BENNETT

EXECUTIVE VICE PRESIDENT

BENNETT LUMBER PRODUCTS, INC.

before

THE SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

December 8, 1982

Mr. Chairman, Senator Baucus, I am Richard G. Bennett, Executive Vice President of Bennett Lumber Products, Inc. Bennett Lumber is a family-owned small business. Our offices are in Princeton, Idaho, where our principal sawmill facility is also located. The company owns and operates a second mill in Elk City, Idaho. When operating at full capacity, these two facilities produce approximately 85 million board feet of construction lumber each year, and employ some 220 individuals.

I am pleased to appear at this hearing of the Productivity and Competition Subcommitee of the Senate Small Business Committee. It is both appropriate and important that the Subcommittee examine how SBA-qualified timber purchasers have been adversely affected by the slow-down in the American economy.

As you know, most of America's basic natural resource industries have suffered during the past three years as interest rates increased and housing starts declined. However, there can be little question that the forest products industry was devastated by these related events.

Bennett Lumber Products was not unaffected by the distressed condition of the national economy. We have suffered through the hard times just like every other lumber manufacturing company. I note, for instance, that we have operated at less than 75 percent of capacity during 1981 and 1982.

Until just recently, I believed that strong financial reserves and tight-fisted money management would be sufficient to assure survival in the currently depressed lumber market. I'm not so sure anymore.

The Ninth Circuit Court of Appeals recently handed down its decision in California v. Block, the lawsuit that challenged the adequacy of the RARE II environmental impact statement. The decision will immediately and signficantly reduce the volume of timber offered for sale by the Forest Service. Such reductions will come because the Court's decision essentially

prohibits road building and timber harvesting within all National Forest roadless areas until the Forest Service fully satisfies the requirements of the National Environmental Policy Act (NEPA).

The decision by the Court of Appeals will hurt both large and small purchasers of federal timber. However, the small, non-timber owning companies will be hardest hit. For that reason, the Small Business Committee and the members of this Subcommittee should keep a watchful eye on the situation.

The magnitude of the problem is revealed by the information released by the Forest Service after the Court's decision was announced. That data indicates that 230.5 MMBF of planned timber sales in Region I will be affected during the current fiscal year. The affected volume within the Region increases to 249.1 MMBF in the next fiscal year, and to 302.9 MMBF in fiscal year 1985. Before the decision, the five-year timber sale plan for Region I called for sale volumes of approximately 1,200 MMBF for each of those twelve-month periods.

The Forest Service has identified three responses to the Appeals Court decision: (1) seek Congressional approval of legislation declaring the RARE II environmental statement "sufficient" for NEPA purposes; (2) satisfy the NEPA requirements on an area-by-area basis as the relevant forest-wide land management plans are developed in coming years; or (3) restudy the RARE II lands in a third roadless area review and evaluation (RARE III).

Those of us who operate within the inland forest region hope the Administration will work with Congress to develop legislation to overrule the Appeals Court decision. But, regardless of the response adopted by the Administration, there will be a period of time during which only minimal volumes of timber will be sold on national forests with a high percentage of roadless acreage. Many companies will be operating during this period -- which could last from several months to several years -- by cutting the

timber they currently have under contract. Therefore, every step must be taken by the Federal Government to make existing timber sale contracts operable.

An equitable way to accomplish that goal is to make sure that purchasers of national forest timber receive prompt and fair reimbursement for the costs they incur when building permanent public access roads under Forest Service timber sale contracts. The appropriate way to assure such reimbursement is to make all purchaser road credits "effective". This can be done by making the credits transferable among timber purchasers, and by allowing the credits to be applied toward the purchase of timber on any national forest in the same section of the country.

The purchaser road credit proposal I have just described is embodied in the timber contract relief legislation now awaiting action by the Senate. I urge the members of this subcommittee to assist small timber companies in the West by helping secure enactment of this bill.

Thank you for the opportunity to present my views.

# # #

NONWILDERNESS AREA ACTIVITIES
November 1982

The attached tables provide preliminary information on activities within RARE II nonwilderness areas. Included are some major known activities that are at various stages of planning or development in these areas. The four lists are not all-inclusive but provide an overview of the impacts involved. A more complete list of planned and ongoing activities in nonwilderness areas is being compiled and should be completed earlyin 1983.

TIMBER SALE PLANS IN NONWILDERNESS AREA

11/19/82

Volumes in Millions of Board Feet
Information from 5-year Timber Action Plans
Servicewide Totals by Region for the Lower 48 States

Region	FY 1983 Volume MMBF	FY 1984 Volume MMBF	FY 1985 Volume MMBF	FY 1986 Volume MMBF	FY 1987 Volume MMBF	TOTALS Volume MMBF
Region 1	230.5	249.1	302.9	304.4	213.5	1,300.4
Region 2	21.8	29.6	23.7	31.9	4.3	111.3
Region 3	.3	1.6	-	2.8	1.0	5.7
Region 4	19.2	59.6	58.8	51.0	70.2	258.8
Region 5	184.2	169.1	294.2	220.1	177.7	1,045.3
Region 6	670.8	699.2	879.1	759.8	739.3	3,748.2
Region 8	45.7	38.0	82.7	42.0	27.1	235.5
Region 9	24.1	25.7	22.5	35.2	33.6	141.1
TOTALS	1,196.6	1,271.9	1,663.9	1,447.2	1,266.7	6,846.3

FOREST SERVICE ROAD CONTRACTS IN
NONWILDERNESS AREAS PLANNED FOR AWARD
IN FISCAL YEAR 1983

Region	No. of Roads	Mileage	No. of Roadless Areas
R-1	30	275	21
R-2	2	4	2
R-3	-	-	-
R-4	3	28	3
R-5	5	21	5
R-6	33	171	26
R-8	21	76	20
R-9	15	34	10
Totals	109 roads	609 miles	87 areas

November 19, 1982

STATEMENT OF EDWARD LAPEYRI, PRESIDENT, MITKOF LUMBER CO., INC., PETERSBURG, ALASKA

Mr. LAPEYRI. Mr. Chairman, I appreciate the opportunity to address this Senate subcommittee today to discuss the situation facing small business lumbermen in Alaska, in particular, and elsewhere across the United States as well. My name is Ed Lapeyri, and I am the president of Mitkof Lumber Co., located in Petersburg, Alaska. Our sawmill has been operating in Alaska for over 30 years and is presently facing the most difficult times in its history.

Mitkof Lumber Co. relies entirely on Federal timber offerings for its source of raw material. Since its inception in February of 1977, we have participated regularly in the SBA set-aside program, as it provided the only avenue to compete for timber with firms of equal size. In each of the first 5 years of the set-aside program, the Forest Service offered an average of 80 million board feet annually. Since this volume is well below the capacity of the SBA-eligible mills, the competition for this timber was keen.

That is one of the reasons that small businesses bid high. As you say, there was not enough available timber to go around, so we found ourselves bidding for our lives rather than just for a timber sale. That answers one of the questions asked earlier. These sales represented the lifeblood of the SBA mills, which found it impossible to compete in the independent sales program against the large businesses who held the long-term timber sales with extremely favorable stumpage rates. The obvious advantage to the large businesses is the ability to average a relatively small volume of expensive independent sale timber with billions of board feet of inexpensive timber. This overwhelming advantage made the set-aside sales a must for small businesses.

The road construction option for SBA purchasers. The 1976 Forest Management Act, section 14 (i), paragraph 1, provided the SBA purchasers of Federal timber with the option of constructing roads on their sales or electing to have the Federal Government contract the construction of these roads. I submitted exhibit 3, which is a copy of section 14(i)(1), and I have highlighted the part that exempts Alaska from this. Right behind it is the last timber sale offered in Alaska, and if you will turn to the second page, you will see exactly what I am talking about, where the Forest Service had blanked it out.

Alaska was especially exempted from that option. To compound the problem, road construction in our State is more costly than anywhere else. Because this option is denied to us, SBA purchasers in region 10 must incur the added expense of road construction equipment: Crews, insurance, bonding, overhead. Oftentimes, SBA sales are for small volumes and short contract periods, necessitating frequent movement and startup costs, and expenses not frequently incurred by large companies with long-term contracts.

If SBA purchasers were allowed to opt out of the road construction on sales that are deficit or otherwise noncost-effective, the cost of operating national forests could be substantially reduced.

Two, Stumpage differences. In a recent letter to Senator Stevens urging passage of the timber relief bill, I pointed out the disparity in stumpage rates currently being assessed on timber sales in

Alaska. A comparison was made between the rates on our three active timber sales and the current rates on Louisiana-Pacific's long-term sale. A copy of my letter is submitted for your information, along with a recent newsletter article describing LP-K's recent rate redetermination in exhibits 1 and 2.

A comparison of the straight-line averages of these stumpage rates reveals that the Louisiana-Pacific is paying $3.09 per thousand board feet, and Mitkof Lumber Co. is averaging $389.69. Furthermore, Louisiana-Pacific's rates were made retroactive to December 1, 1981, and these rates apply to timber volume of between 4 and 5 billion board feet. In contrast, my company has 64 million board feet currently under contract.

It has been suggested that these extremely high rates are the result of careless bidding on the part of the Federal timber purchasers. I can only say that in Alaska, small business purchasers were bidding for their very existence during times of high inflation, growing recession, and a dwindling timber base in southeast Alaska. We feel it is critical to achieve parity, in terms of stumpage rates, with the larger companies if the SBA purchasers are to remain viable concerns in the timber industry. It is important to realize also that we are not only operating in the same national forest system as the larger businesses, but compete head-to-head in the same Pacific Rim markets for the sale of our products.

While on a recent trip to Japan last month to confer with customers and investigate the current market, we visited the Port of Chiba, where some of my product was being fumigated before it was delivered to my customer, Mr. Mirakami of Mirakami Lumber. There was an additional 2 million feet of Hemlock sitting on the same port that had just come in by ship from Louisiana-Pacific's Ketchican division. My customer told me that their price was reduced over $50 per thousand, and that if I wanted to move my wood I would have to reduce my price accordingly or I couldn't sell it. We arrived at an agreement, and I did move my wood. Upon returning to Alaska a week later, I read the article in the paper that you have there about the retroactive decrease in the stumpage, and therefore they had that wood so much cheaper that they could reduce the price to move it. That was the problem I was facing in our current market situation.

The timber relief bill presently before Congress could do much to help our industry. In addition to the measures in S. 2805, we have indicated to our congressional delegation several other points which directly affect small timber purchasers in Alaska and the rest of the United States as well. They are, as follows:

Three, End product value pulp appraisal. The second major problem is that of using pulp as an end-product value to determine the stumpage rates. The harvesting of timber in old-growth forests generates substantial volumes of utility-grade logs suited only for the production of pulp. The appraisal system employed by the Forest Service in Alaska, though similar to the systems used in other regions, has a limited number of sources from which to collect costs and thereby determine stumpage values. As a result, the selling values of the lumber and pulp have been based on the experience of two mills which make both products.

However, no differentiation is made when appraising timber between mills that do not realize the end-product value of pulp and those which do. For instance, SBA purchasers currently pay the same price for high-grade sawlogs as they do for low-grade pulp logs. The cost of logging and transporting these logs is identical, but the return on these logs is vastly different.

An example would be the purchase of a spruce or hemlock log containing 1,000 board feet. Assuming this log was suitable only for the production of pulp, one could expect to pay, using the average I indicated earlier, $389. Add to this cost approxinately $150 for logging, and the investment totals $539. Presently in Alaska, this same pulp log is worth $75 to $80 delivered to a pulp mill. The net loss is about $459. An appraisal system that recognizes the actual value of pulp logs as an end-product value for an SBA purchaser would be far more equitable. This example, by the way, does not include the price of roads necessary to bring the pulp logs to market. For this reason, we find it imperative to reconcile the appraisal system with the actual values received by the SBA purchasers.

In summary, the urgent concerns of our portion of the timber industry are, as follows: First, parity in Alaska for the pricing of set-aside sales equal to that of the existing long-term sales; second, modification of the 1976 Forest Management Act to allow SBA purchasers in Alaska the same benefits as SBA purchasers elsewhere; third, modification of the current appraisal system to recognize pulp log value as the end-product value for pulp logs on set-aside sales; fourth, passage of the Hatfield/McClure timber relief bill, S. 2805.

I am willing to answer your questions, but you asked a question earlier of panel I on the SSTS program. I would like to elaborate, because we have that program also in effect in Alaska. It is a very viable program. An example would be, we have contractors operating our timber sales, but we also buy logs from at least 7 to 10 very small businesses, under 25 employees, who purchase these special salvage timber sales from the Forest Service. We buy their logs as they deliver it to our mills. That probably brings in about 2 million feet per year to us, and it keeps about 7 or 8 companies going.

[The prepared statement of Mr. Lapeyri follows:]

Mitkof Lumber Company, Inc.
Post Office Box 89 • Petersburg, Alaska 99833 • Phone (907)772-3816

REMARKS PRESENTED BY ED LAPEYRI

PRESIDENT, MITKOF LUMBER COMPANY

BEFORE THE

SUBCOMMITTEE ON PRODUCTIVITY AND COMPETITION

SENATE SMALL BUSINESS COMMITTEE

UNITED STATES SENATE

8 DECEMBER 1982

WASHINGTON, D. C.

+ Remarks of Ed Lapeyri [1] 8 December 1982
Mitkof Lumber Company, Inc.

Senator Baucus:

Thank you for the opportunity to appear before this Senate Committee today to discuss the situation facing small business lumbermen in Alaska, in particular, and elsewhere across the United States. My name is Ed Lapeyri and I am President of Mitkof Lumber Company, located in Petersburg, Alaska. Our sawmill has been operating in Alaska for over 30 years and is presently facing the most difficult times in its history.

Mitkof Lumber Company relies entirely on federal timber offerings for its source of raw material. We have participated regularly in Region 10's S.B.A. set-aside program since its inception in February of 1977. This program provides the only avenue to compete for timber with firms of equal or larger size. In each of the first five years of the set-aside program in Alaska, the Forest Service offered an average of 80 MMBF annually. Because this volume is well below the capacity of S.B.A.-eligible mills, the competition for this timber has been keen. These sales represent the lifeblood of S.B.A. mills, which find it impossible to compete in the independent sales program against large businesses which hold long-term timber sales with extremely favorable stumpage rates. Large businesses enjoy the ability to average relatively small volumes of expensive "independent sales" timber with billions of board feet of inexpensive timber. This overwhelming advantage makes the set-aside a must for small businesses.

The timber relief bill presently before the Congress can do much to help our industry. In addition to the measures in S.2805, we have suggested to our congressional delegation several other points which directly affect small business timber purchasers in Alaska and the rest of the United States as well. They are as follows:

(1) Road Construction Option for S.B.A. Purchasers: The National Forest Management Act of 1976, Sec. 14(h)(i)(1) [16 U.S.C. §472a(i)(1)] provides S.B.A. purchasers of federal timber with the option of constructing roads on their timber sales or electing to

have the federal government contract the construction of these roads [See Exhibit #1]. Alaska was expressly exempted from this option. To compound the problem, road construction in our state is more costly than anywhere else. Because this option is denied to us, S.B.A. purchasers in Region 10 must incur the added expense of road construction equipment, crews, insurance, bonding and overhead. Most S.B.A. sales are for small volumes and short contract periods, necessitating frequent moving and start-up costs--an expense not frequently encountered by large companies with long-term contracts. If S.B.A. purchasers were allowed to opt out of road construction on sales that are deficit or otherwise not cost-effective, the cost of operating on the national forests could be substantially reduced. In addition, federal revenues from the sale of timber could be increased through the elimination of "road deficit" timber sales. In requesting modification of the National Forest Management Act of 1976, we in Alaska are not seeking a special privilege, but simply equal treatment with S.B.A. timber purchasers elsewhere across the country.

(2) Stumpage Differences: In a recent letter to Senator Ted Stevens urging passage of the timber relief bill [Exhibit #2], I pointed out the disparity in stumpage rates currently being assessed on timber sales in Alaska. A comparison was made between the rates on our three active timber sales and the current rates on Louisiana-Pacific's long-term sale. A copy of my letter is submitted for your review, along with a reprint of a newspaper article describing LP-K's recent rate redetermination [Exhibits #3 and #4]. A comparison of straight-line averages of these stumpage rates reveals that Louisiana-Pacific is paying $3.09 per thousand board feet and Mitkof Lumber Company is averaging $389.69. Furthermore, LP-K's rates were reduced retroactively to December 1, 1981. These rates apply to a timber volume in excess of a billion board feet; in contrast, my company has 64 million board feet currently under contract. Our critics might suggest that these extremely high stumpage rates are the result of careless bidding on the part of federal timber purchasers. I can only say that in Alaska, small business purchasers are bidding for their very existence during times of high

inflation, growing recession, and a dwindling timber base in Southeast Alaska. We feel it is critical to achieve parity, in terms of stumpage rates, with the larger companies if S.B.A. purchasers are to remain a viable element in the timber industry. Please note that we are not only operating in the same national forest system as the larger businesses, but we compete head-to-head in the same Pacific Rim markets for the sale of our products.

While on a trip to Japan last month to confer with customers and investigate the current market, I observed recent deliveries of Alaska lumber from my large competitors sitting on the dock at the port of Chiba. Following the recent rate redetermination for LP-K, the price of this product had been cut far below the price for which I could sell Mitkof's product in today's flat market. The advantage which the big mills enjoy by having such a low cost of National Forest timber makes it virtually impossible for us to compete in the same market. And we have no other market.

(3) End Product Value Pulp Appraisal: Another major problem is that of using pulp as an end product value for appraisal purposes. The harvesting of timber in old-growth forests generates substantial volumes of utility grade logs suited only for the production of pulp. The appraisal system employed by the Forest Service in Alaska, though similar to the system used in other regions, has a limited number of sources from which to collect costs and thereby determine stumpage values. As a result, the selling values for lumber and pulp have been based on the experience of the two mills which make both products. However, when the U.S. Forest Service appraises timber, no differentiation is made between mills that do not realize the end product value of pulp and those which do. For instance, S.B.A. purchasers currently pay the same price for high-grade sawlogs as they do for low-grade pulp logs. The cost of logging and transporting these logs is identical, but the return on these logs is vastly different.

An example would be the purchase of a spruce or hemlock log containing 1,000 board feet. Assuming this log were suitable only for the production of pulp, one

14-654 O - 83 - 5

could expect to pay, using the average I indicated earlier, $389.00. Add to this cost approximately $150.00 for logging, and the investment totals $539.00. Presently in Alaska, this same pulp log is worth about $65.00 delivered to a pulp mill [See Exhibit #5]. The net loss is about $474.00. An appraisal system that recognizes the actual value of a pulp log as the end-product for an S.B.A. purchaser would be far more equitable. This example, by the way, does not include the price of constructing roads necessary to bring that pulp log to market. For this reason, we find it imperative to reconcile the appraisal system with the actual values received by S.B.A. purchasers.

(4) Funding of Guaranteed Loan Program--ANILCA § 705(b) [16 U.S.C. §539d]: Two years have passed since Congress directed the Secretary of Agriculture to establish a guaranteed loan program to assist purchasers of national forest timber in Alaska. To date, the Secretary has not even requested an appropriation to begin this program! The availability of guaranteed loans for the acquisition of equipment needed to increase the utilization of the forest resource would stimulate and encourage those of us engaged in the harvest and production of forest products. [The relevant portion of the ANILCA legislation is attached as Exhibit #6.]

(5) Passage of Hatfield/McClure Timber Relief Act: Provisions in this act would provide purchasers with the opportunity to continue their operations by minimizing penalty assessments for non-performance and allow the harvest and processing of the most economical timber a purchaser may have under contract with the government.

Additional aspects of the bill--those relating to purchaser credit--would make deficit timber sales economically feasible at this time.

Conclusion:

In summary, the urgent concerns of our portion of the timber industry are as follows:

(1) Modification of Section 14(h)(i)(1) of the National Forest Management Act of 1976 to allow S.B.A. purchasers in Alaska the same benefits as S.B.A. purchasers elsewhere.

(2) Parity in Alaska for the pricing of set-aside sales equal to that of the existing long-term sales.

(3) Improvement of the current appraisal system to recognize pulp log value as the end-product value for pulp logs on set-aside sales.

(4) Establishing the guaranteed loan program which was authorized by Congress in ANILCA, §705(b), but not yet implemented by the Secretary of Agriculture.

(5) Passage of the Hatfield/McClure Timber Relief Bill (S. 2805).

Respectfully submitted,

Ed Lapeyri

Ed Lapeyri
President
Mitkof Lumber Company, Inc.

LIST OF EXHIBITS

Exhibit #1	National Forest Management Act of 1976, Sec. 14(h)(i)(1) [16 U.S.C. § 472a(i)(1)
Exhibit #2	Letter of 12 November 1982 to Senator Ted Stevens
Exhibit #3	Newspaper Article of 26 October 1982 from Ketchikan Daily News
Exhibit #4	Newspaper Article of 5 November 1982 from The Oregonian
Exhibit #5	Newspaper Clipping of 14 December 1982 from Ketchikan Daily News
Exhibit #6	ANILCA § 705(b) [16 U.S.C. §539d]

the optimum practical use of the wood material. Such standards, methods, and practices shall reflect consideration of opportunities to promote more effective wood utilization, regional conditions, and species characteristics and shall be compatible with multiple use resource management objectives in the affected area. To accomplish the purpose of this subsection in situations involving salvage of insect-infested, dead, damaged, or down timber, and to remove associated trees for stand improvement, the Secretary is authorized to require the purchasers of such timber to make monetary deposits, as a part of the payment for the timber, to be deposited in a designated fund from which sums are to be used, to cover the cost to the United States for design, engineering, and supervision of the construction of needed roads and the cost for Forest Service sale preparation and supervision of the harvesting of such timber. Deposits of money pursuant to this subsection are to be available until expended to cover the cost to the United States of accomplishing the purposes for which deposited: *Provided*, That such deposits shall not be considered as moneys received from the national forests within the meaning of sections 500 and 501 of title 16, United States Code: *And provided further*, That sums found to be in excess of the cost of accomplishing the purposes for which deposited on any national forest shall be transferred to miscellaneous receipts in the Treasury of the United States.

(i) (1) For sales of timber which include a provision for purchaser credit for construction of permanent roads with an estimated cost in excess of $20,000, the Secretary of Agriculture shall promulgate regulations requiring that the notice of sale afford timber purchasers qualifying as "small business concerns" under the Small Business Act, as amended, and the regulations issued thereunder, an estimate of the cost and the right, when submitting a bid, to elect that the Secretary build the proposed road: *Provided*, That the provisions of this subsection shall not apply to sales of timber on National Forest System lands in the State of Alaska.

(2) If the purchaser makes such an election, the price subsequently paid for the timber shall include all of the estimated cost of the road. In the notice of sale, the Secretary of Agriculture shall set a date when such road shall be completed which shall be applicable to either construction by the purchaser or the Secretary, depending on the election. To accomplish requested work, the Secretary is authorized to use from any receipts from the sale of timber a sum equal to the estimate for timber purchaser credits, and such additional sums as may be appropriated for the construction of roads, such funds to be available until expended, to construct a road that meets the standards specified in the notice of sale.

(3) The provisions of this subsection shall become effective on October 1, 1976.

VALIDATION OF TIMBER SALES CONTRACTS

SEC. 15. (a) Timber sales made pursuant to the Act of June 4, 1897 (30 Stat. 35, as amended; 16 U.S.C. 476), prior to the date of enactment of this section shall not be invalid if the timber was sold in accord with Forest Service silvicultural practices and sales procedures in effect at the time of the sale, subject to the provisions of subsection (b) of this section.

(b) The Secretary of Agriculture is directed, in developing five-year operating plans under the provisions of existing fifty-year timber sales contracts in Alaska, to revise such contracts to make them consistent with the guidelines and standards provided for in the Forest

+ REMARKS OF ED LAPEYRI

EXHIBIT #1
(1)

BEST AVAILABLE COPY

U.S. DEPARTMENT OF AGRICULTURE
Forest Service

BID FOR ADVERTISED TIMBER
(Reference FSH 2409)

1. SALE NUMBER	2. DATE BID OPENED	3. OPENED BY

4. SALE NAME	5. IN THE PRESENCE OF
Cabin Timber Sale	

6. NATIONAL FOREST	7. RANGER DISTRICT	8. TYPE OF BID (X Appropriate Box)
Tongass	Petersburg	☐ Confirmation of Oral Bid ☒ Sealed Bid

9. TO (Title & address of Forest Officer receiving bids)	10. NAME OF NEWSPAPER	11. DATE PUBLISHED
Forest Supervisor, Stikine Area Tongass National Forest P.O. Box 150 Petersburg, AK 99833	Petersburg Pilot Juneau Empire Ketchikan Daily News	
	12. CITY: Petersburg	13. STATE: Alaska

INSTRUCTIONS TO FOREST OFFICER: Complete applicable blanks before sending to prospective purchasers. Attach copy of notice of sale. Entries are required in columns a, b, c, e, and f, in all sales. Strike out spaces for entries in one or more of columns d, g, or h, if not applicable to the sale.

In response to the notice of sale published in the newspaper specified above, and subject to the provisions on page 3, the following bid is submitted:

14. BID INFORMATION SPECIES AND PRODUCTS (a)	UNIT OF MEASURE (b)	ESTIMATED QUANTITY (c)	RATES PER UNIT OF MEASURE Base (d)	Advertised (e)	Bid (f)	Additional deposits required for slash disposal (g)	BASE INDICES (h)
Sitka Spruce Logs	MBF	7,210	$11.03	$98.09		$1.27	XXX
Hemlock Logs	MBF	15,360	$7.03	$7.03		$1.27	XXX
Alaska-cedar Sawlogs	MBF	1,270	$11.03	$430.87	$430.87*	$1.27	XXX
Other Sawlogs	MBF	Unest.	$1.00	$1.00	$1.00*	$1.27	XXX

* Fixed Rate: no other rates will be considered.

Timber volume required to be cut and scaled before lower rates developed from scheduled rate redeterminations can become effective is not applicable M board feet.

CONTRACT AND BONDS – The bidder whose bid is accepted will, within 30 days of notice of award, or any written extension thereof by the Forest Service, execute a timber sale contract and furnish a satisfactory performance bond, in accordance with the provisions of such timber sale contract, in the penal sum as prescribed in the prospectus for this sale. See addendum 8a for time allowed to provide a cash deposit.

Previous editions of this form are obsolete. 2400-14 460 Page 1 (AK) (8-80)

+ REMARKS OF ED LAPEYRI

EXHIBIT #1
(11)

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U.S. DEPARTMENT OF AGRICULTURE
Forest Service

CERTIFICATE OF INDEPENDENT PRICE DETERMINATION

THE BIDDER CERTIFIES:

a. By submission of this bid each bidder certifies, and in the case of a joint bid each party thereto certifies as to its own organization, that in connection with this procurement:

(1) The prices in this bid have been arrived at independently, without consultation, communication, or agreement, for the purpose of restricting competition, as to any matter relating to such prices with any other bidder or with any competitor;

(2) The prices which have been quoted in this bid have not been knowingly disclosed by the bidder and will not knowingly be disclosed by the bidder prior to opening of bid, directly or indirectly to any other bidder or to any competitor; and

(3) No attempt have been made or will be made by the bidder to induce any other person or firm to submit or not to submit a bid for the purpose of restricting competition.

b. Each person signing this bid or proposal certifies that:

(1) He is the person in the bidder's organization responsible within that organization for the decision as to the prices being bid herein and that he has not participated, and will not participate, in any action contrary to a-(1) through a-(3) above; or

(2) He is not the person in the bidder's organization responsible within that organization for the decision as to prices being bid or offered herein but that he has been authorized in writing to act as agent for the persons responsible for such decision in certifying that such persons have not participated, and will not participate, in any action contrary to a-(1) through a-(3) above, and as their agent does hereby so certify; and that he has not participated, and will not participate, in any action contrary to a-(1) through a-(3) above.

c. A bid will not be considered for award where a-(1), a-(3), or b above has been deleted or modified. Where a-(2) above has been deleted or modified the bid will not be considered for award unless the bidder furnishes with the bid a signed statement which sets forth in detail the circumstances of the disclosure and the Chief, Forest Service, or his designee, determines that such disclosure was not made for the purpose of restricting competition.

INSTRUCTIONS: Each bidder must check appropriate boxes in items (a), (b), and (c) below.

(a) That he ☐ has, ☐ has not employed or retained any company or person (other than a full-time bona fide employee working solely for the bidder) to solicit or secure a contract for this timber.

(b) That he ☐ has, ☐ has not paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the bidder) any fee, commission, percentage or brokerage fee, contingent upon or resulting from the award of contract for this timber, and agrees to furnish information relating thereto as requested by the officer authorized to approve the timber sale contract.

(c) That he ☐ has, ☐ has not participated in a previous contract subject to the provision of section 202 of Executive Order 11246 (Non-discrimination in Employment) of 9/24/65, as amended; and that he ☐ has, ☐ has not submitted required compliance reports under such previous contracts.

Enclosed is bid guarantee, in accordance with item 8 under Instructions to Bidders, consisting of:

_____ in the amount of: $ _____
(See Instruction 8, Bid Guarantee)

☐ ELECTION DOES NOT APPLY IN ALASKA - 1976 NATIONAL FOREST MANAGEMENT ACT, SEC. 14(i)
~~☐ If you are a Small Business and wish to have Forest Service construct specified roads. You may not change election once made.~~
Failure to mark box constitutes agreement to build roads. Election may not be changed subsequent to time set for opening bids. (Note item 13 on page 3.)

BIDDERS ACKNOWLEDGE THAT FOREST SERVICE ESTIMATES OF COSTS AND TIMBER VOLUMES ARE NOT GUARANTEED AND THAT THE FOREST SERVICE GRANTS NO WARRANTY, EITHER EXPRESS OR IMPLIED OF THEIR ACCURACY.

NAME OF BIDDER *(Type or Print)*	BY *(Signature in ink)* REVIEW CONDITIONS ON PAGE 3 BEFORE SIGNING	
BUSINESS ADDRESS *(Include Zip Code) (Type or Print)*	TITLE *(Type or Print)*	DATE
FULL NAME OF ALL PARTNERS *(Type or Print)*		

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+ REMARKS OF ED LAPEYRI

Revised Apr 82 D-10
EXHIBIT #1
(111)

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AD

INSTRUCTIONS TO BIDDERS

1. CONDITIONS AFFECTING SALE COMPLIANCE PRIOR TO BIDDING. Bidders should inspect the sale area, review the requirements of the sample timber sale contract, and take such other steps as may be reasonably necessary to ascertain the location, estimated volumes, quality development, and operating costs of the offered timber. Failure to do so will not relieve bidders from responsibility for completing the contract.

2. BIDDER'S QUALIFICATIONS. Before a bid is considered for award, the bidder may be requested by the Government to submit a statement regarding his previous experience in performing comparable work, his business and technical organizations, financial resources, and plant available to be used in performing the work.

3. PREPARATION OF SEALED BIDS. Bids shall be manually signed, bid prices entered in the column "Bid" for all material subject to bidding and representations completed. If erasures or other changes appear on the forms, each erasure or change must be initialed by the person signing the bid.

4. PUBLIC OPENING OF SEALED BIDS. Sealed bids will be publicly opened and posted at the time set for opening in the advertisement.

5. ORAL AUCTION BIDDING. If the advertisement provides for ORAL AND SEALED bids, each bidder to participate in the oral auction must submit a sealed bid in accordance with instructions. All parties who submit a satisfactory sealed bid will be permitted to continued bidding orally immediately following opening and posting of the sealed bids. The high bidder must confirm his bid in writing immediately upon being declared the high bidder.

SEE ADDENDUM TO BID FORM

~~6. SUBMISSION OF SEALED BIDS. Sealed bids must be submitted to the Forest Officer, designated by the advertisement as the receiving officer, at a~~ prior to the time established by the advertisement. Such bids should be enclosed with the required bid guarantee in a sealed envelope addressed to the designated receiving officer. The envelope should show on the outside (a) that it is a "Bid for Timber," and (b) the sale name or number, and the date and time of opening ~~bids as shown by the advertisement.~~

7. SET-ASIDE SALES. If the advertisement or prospectus of sale states that small-business concerns will receive preferential consideration in award of this sale, bidders must qualify for preferential consideration by completing and signing the attachment to this bid form "Certificate of Small Business Status." Small Businesses which have been determined by SBA to be ineligible for preferential award of set-aside sales cannot so qualify. Small businesses awarded set-aside sales will also be required to execute SBA form 723, Small Business Certification Required On All Preferential Sales of Set-Aside Timber, at time timber sale contract is executed.

SEE ADDENDUM TO BID FORM

~~8. BID GUARANTEE. A bid guarantee in the form of cash, a bid bond on form 2400-34, certification of annual bid bond allocation from form 2400-3~~ or an irrevocable letter of credit, a certified check, bank draft, cashier's check, or bank money order payable to the Forest Service, USDA, in the amount specified by the advertisement as the bid guarantee must accompany each bid. Any deposits of money will be retained for application toward payment of damages for failure to execute and fulfill contract, or refunded. Failure to submit an acceptable bid guarantee will require rejection of the bid as unresponsive unless there is no other ~~acceptable bid. Bid bond must be accompanied by a power of attorney indicating that the person signing the bond for the surety has the power to do so.~~

9. AWARD OF CONTRACT. (a) Award of contract will be made to that responsible bidder whose bid, conforming to the invitation for bids, is most advantageous to the United States on the basis of total value at rates bid for the estimated quantities. (b) The government may, when in its interest, reject any or all bids or waive any informality in bids received. (c) A written award mailed (or otherwise furnished) to the successful bidder shall be deemed to result in a binding contract without further action by either party. (d) If timber is advertised as set-aside for competitive bidding by small businesses, award will be made to the highest bidder who qualifies as a small business and who has not been determined by the SBA to be ineligible for preferential award of set-aside sales. ~~If there are no qualified small business bids received, award may be made to the highest bidder not qualifying for preferential award.~~

SEE ADDENDUM TO BID FORM

~~10. DAMAGES. Failure to execute a timber sale contract or to furnish a satisfactory performance bond within the time allowed may be treated as a~~ repudiation of the contract, and any or all of the bid guarantee may be retained by the Forest Service and applied toward satisfaction of actual damages resulting ~~from the bidder's failure to enter into the contract, without prejudice to any other rights and remedies of the United States.~~

11. PRIVACY ACT. All personal information is requested on a voluntary basis; however, if you do not provide this personal information, your bid will not be accepted. Solicitation of this information is necessary for the government to conduct its sale program and thus is authorized under the National Forest Management Act of 1976, (16 U.S.C. 472a). The principal purpose for collecting this information is to allow for proper award of a timber sale contract and to provide for administration of that contract after award. Other routine uses of this data include: (1) compilation of small business data to determine needs for set-aside sales, (2) determination of volume purchased in any specific time period by a single purchaser, and (3) determination of volume under contract by a purchaser.

ELECTION DOES NOT APPLY IN ALASKA - 1976 NATIONAL FOREST MANAGEMENT ACT, SEC. 14(i)(1)

~~12. ROAD COMPLETION DATE. Bidder hereby acknowledges that he is aware of the road completion date of the sample contract. Bidder also acknowledges~~ that if he is a small business and elects to have Forest Service construct specified roads, he is aware: (a) that the Forest Service expects to contract for road construction (b) that the timber sale contract will not be awarded unless a satisfactory road construction bid is received and the contract awarded or, if the Forest Service fails to receive such a bid within a maximum period stated in the advertisement, the bidder agrees to perform road construction, (c) that the Forest Service may extend the maximum award delay time by the amount of time needed to confirm either sale or road bidder's size status or by any time in excess of 40 days from timber sale bid opening needed to begin solicitation of construction bids, and (d) that if the Forest Service extends the maximum award ~~delay period and a shortage of the road contract is expected, the bidder may withdraw his bid without penalty.~~

ELECTION DOES NOT APPLY IN ALASKA - 1976 NATIONAL FOREST MANAGEMENT ACT, SEC. 14(i)(1)

13. ~~ELECTION OF ROAD OPTION AND~~ CERTIFICATE OF SMALL BUSINESS STATUS. ~~Was applicable if the total value of specified roads is less than $20,000.~~ Bidder qualifying as a small business concern under the Small Business Act, as amended, and the regulations issued thereunder, may elect to have Forest Service construct Specified Roads, required by the contract. Bidder who does not elect agrees, if required contract, to construct roads in accordance with the contract. Bidder who does elect acknowledges that he is aware of and agrees to the conditions stated in item 12 above and that he is a small business concern within the terms of the definition listed below:

In sales of National Forest timber a small business is a concern that: (1) is primarily engaged in the logging and forest products industry; (2) is independently owned and operated; (3) is not dominant in its field of operation; and (4) together with its affiliates does not employ more than 500 persons.

14. BIDDER SIZE GROUP. Bidder represents that it's business together with its affiliates does not employ more than the number of employees checked below:

☐ 25 ☐ 100 ☐ 250 ☐ 500 ☐ 750 ☐ 1000 ☐ Over 1000

15. See attached sheet.

PREVIOUS EDITION IS OBSOLETE. Revised Apr 82 R-10 *FS-2400-14 (3/81) Page

+ REMARKS OF ED LAPEYRI

EXHIBIT #1
(iv)

BEST AVAILABLE COPY

Mitkof Lumber Company, Inc.

Post Office Box 89 • Petersburg, Alaska 99833 • Phone (907)772-3816

November 12, 1982

Senator Ted Stevens
Senate Office Building
Washington, D. C. 20510

Dear Senator Stevens:

The small business sector of Alaska's forest products industry is suffering perhaps more than anyone else from the present recession. We see now that the Federal Government has taken steps to assist large businesses but has neglected its small business timber purchasers. Enclosed is a copy of a Ketchikan Daily News story concerning the reappraisal of LP-K's long term timber sale. Please note the stumpage prices of $2.87 and $1.97 for Spruce and Hemlock respectively. In addition, this reduction in price is retroactive to December 1, 1981 and will remain in effect until March 1, 1984.

Presently we have three timber sales under contract all of which were purchased prior to December 1, 1981. Please note that two of these sales (Sokolof and Watershed) are salvage of deteriorated windthrown timber and all three sales are on strict harvesting schdules.

Sale	Spruce	Hemlock	Alaska Yellow Cedar
WATERSHED	$351.86	$17.65	$1,428.50
SOKOLOF	$120.00	$ 2.00	-------
GRANITE	$309.00	$60.73	$ 331.99

Those large businesses fortunate enough to be holding long term contracts are now enjoying:

1. A reduction in the average cost of raw materials of 95.8%
2. A retroactive reduction of 95.8% in raw material costs going back to December 1, 1981
3. Guarantee of these extremely favorable rates until March 1, 1984.

+ REMARKS OF ED LAPEYRI

EXHIBIT #2
(1)

We find this situation very inequitable in view of the fact that we are operating on the same forest, often in less desirable timber and selling our products in the same marketplace. Unless we can be assured of parity treatment by the Forest Service our very existence is threatened. We strongly encourage your consideration of the following Items:

1. Parity in Alaska (Region X) for the pricing of existing timber sales equal to that provided for the long term sales.

2. Prompt passage of the Hatfield/McClure relief bill.

3. Modification of the 1976 Forest Management Act to strike the exclusion of Alaskan small businesses from opting to have the Forest Service construct roads. Recent conversations with the Forest Service at both the Regional and Washington office level have not revealed any opposition to this idea.
4. Consideration for a return to oral bidding practices on future Tongass N.F. timber sales.

We are likewise encouraging the other members of our Congressional delegation to support the relief bill and take additional measures to rectify the problems we are having. We appreciate your continued efforts to support the Alaskan timber industry.

Sincerely,

Ed Lapeyri, President

Enclosure

cc: Senator Murkowski
Representative Don Young
John Sandor
W. Gaskins
B. McDermott
J. McCracken
Alaska Timber Corporation
Schnabel Lumber Co.

EXHIBIT 3

[From the Ketchikan Daily News, Oct. 26, 1982]

LPK WINS STUMPAGE RATE DROP

(By David Kiffer)

Christmas came in July for Louisiana-Pacific, Ketchikan Division, when the U.S. Forest Service invoked a clause in LPK's long-term sale agreement allowing a drastic reduction in stumpage fees in the Tsongas National Forest.

"It's a pretty healthy drop," said Gary Peterson of the USFS timber management division in Juneau. "But the market is at its worst level since the Depression. Actually, there is more of a collapse in the market now than ever before. The industry is in disastrous shape."

Stumpage rates set the price that timber companies pay the federal government for taking trees from national forest lands.

Peterson said that all long-term USFS contracts had clauses allowing for a redetermination of rates, and that LPK had asked the Forest Service to look at a reduction.

"We looked at it and they certainly qualified for the reduction," Peterson said. "The contract is designed to allow the company to maintain a small profit even if the market drops."

On the average, the stumpage rates drop from $73.15 per thousand board feet to $3.09 per thousand board feet. The new rate was effective retroactive to Dec. 1, 1981.

A detailed stumpage rate reduction shows:

Spruce going from $114.96 to $2.87.

Hemlock going from $30.97 to $1.97.

Exported red cedar from $86.57 to $1.62.

Domestic red cedar from $30.80 to $1.62.

Yellow cedar from $182.34 to $13.42.

The new rates will remain in effect at least until March 1, 1984, when the USFS will take another look at timber market conditions.

Peterson said the new rates wouldn't be a complete windfall for LPK.

"For one thing, the new rates are so low that road building credits will be deferred," Peterson said. "The contract allows them to carry the credits and to use them when the stumpage fees go up. Depending on how many roads they have to build, the lack of credits could be very costly to them. If the market goes up again they'll be able to use the credits, but there's no guarantee that will happen."

LP POSTS QUARTERLY GAIN

Louisiana Pacific Corp. has reported a small profit for the second straight quarter.

The Portland-based forest products firm with extensive southeast Alaska operations earned a net income of $560,000 on sales of $228.3 million, according to LP chairman Harry A. Merlo.

Third quarter sales were down 10 percent from a year ago, when the company posted a $2.6 million dollar loss. Earnings on each share of LP stock were three cents compared to an eight-cent loss per share in 1981.

Merlo attributed the gain to an increased demand for the company's building products and "improved success in reducing costs," particularly in the company's timber operations.

Merlo's release didn't go into specifics, but LP also negotiated a much lower stumpage fee for its southeast Alaska timber operations. The reduced rate was retroactive to Dec. 1, 1981.

Merlo was optimistic the upward earnings trend would continue through 1983.

"It appears that we're now beginning to enjoy the fruits of President Reagan's success in controlling inflation and lowering the cost of money," Merlo said.

EXHIBIT 4

[From the Oregonian, Nov. 5, 1982]

ALASKA TIMBER PRICE SLASH TO BENEFIT L-P

(By Jim Kadera)

The US. Forest Service has slashed the price of national forest timber in Alaska, giving a break to Portland's Louisiana-Pacific Corp.

The agency slashed stumpage rates by as much as 98 percent on timber harvested by the company's Ketchikan division in the Tongass National Forest under a 50-year contract.

The company reported Thursday that the rollback will only reduce its losses in Alaska during a slump in the export market for pulp and other forest products. A Forest Service official, though, said the contract "is designed to allow the company to maintain a small profit even if the market drops."

Louisiana-Pacific requested the rate reductions last December. After several months of study of the depressed state of the timber industry, decline of foreign markets and other factors, the service decided the request was merited, said Al Aitken, timber sale administration specialist for the Tongass.

Except in case of an economic emergency, the rates are reviewed only every five years. The last adjustment was in March 1979, Aitken noted.

The new rates are retroactive to December 1981, when the request was filed and will continue until March 1, 1984, even if markets rebound sharply earlier, he acknowledged.

The rates fell from an average of $73.15 per thousand board feet to $3.09 per thousand. Spruce dropped from $114.96 to $2.87, hemlock from $30.97 to $1.97, yellow cedar from $182.34 to $13.42, exported red cedar from $86.57 to $1.62, and domestic red cedar from $30.80 also to $1.62.

A similar request made last summer by the Japanese-owned Alaska Lumber & Pulp Co., the state's other pulp producer, is under study. If it also passes the test, lower rates will be retroactive to the filing date, Aitken said.

Gary Peterson, also of the Tongass timber staff, told the Ketchikan Daily News that the rollbacks will not be a windfall for Louisiana-Pacific.

"For one thing, the new rates are so low that road building credits will be deferred," Peterson said. "The contract allows them to carry the credits and use them when the stumpage fees go up. Depending on how many roads they have to build, the lack of credits could be very costly to them. If the market goes up again, they'll be able to use the credits, but there's no guarantee that will happen."

Most federal timber contracts with large volumes and roads to build give purchasers three to eight years to complete harvesting. The government allowed 50-year contracts in Alaska in the 1950s to lessen the risk of developing costly pulp mills.

"We were losing money badly on processing timber. The new rates have helped us lose less money," said Kent Studebaker, Louisiana-Pacific's forest policy attorney.

Gerry Griffin, company communications director, said the Ketchikan pulp mill is operating "hand to mouth," but will have to be closed temporarily in early 1983 because of poor pulp markets. The Forest Service denied a plea by Louisiana-Pacific to export small logs, Griffin said.

Costs of extending roads into Prince of Wales Island and other islands with the Tongass timber also have increased in recent years, Griffin said.

Road costs will be reduced, however, if Louisiana-Pacific and other Alaskan operators win their fight for larger clearcuts that mean less frequent entry to an area. The Tongas limit on clearcuts is 100 acres.

The state wants to protect large blocks of old-growth timber in at least some drainages to maintain populations of Sitka black-tailed deer, he explained.

The stumpage price slashes apparently will not give Alaska producers an advantage over Northwest pulp makers.

Tom Ambrose, communications director for Weyerhaeuser Co. in Tocoma, said, "It's like comparing apples and oranges." Oregon and Washington pulp mills use lumber and plywood mill residues, Ambrose explained, while the Alaskans generally must chip more costly logs.

Ketchikan Daily News

Ketchikan, Alaska, Tuesday, December 14, 1982

10) 10 Pages

PULP AND SAWMILL QUALITY LOGS WANTED

Louisiana-Pacific Ketchikan Division offers to purchase pulp logs for processing in the Ward Cove Pulp Mill. Louisiana-Pacific Ketchikan Division presently offers up to $65.00 per MBF net Scribner plus utility scale on hemlock and spruce pulp logs delivered purchases to be F.O.B. completed bundle rafts Ward Cove

Competitive prices to sawmill quality logs will be offered upon inspection of logs on a case by case basis.

Those parties having logs to sale should contact Ron Gelbrich at 907/225-2151

+ REMARKS OF ED LAPEYRE

EXHIBIT #5

BEST AVAILABLE COPY

NATIONAL FOREST TIMBER UTILIZATION PROGRAM

16 USC 539d.

SEC. 705. (a) The Congress authorizes and directs that the Secretary of the Treasury shall make available to the Secretary of Agriculture the sum of at least $40,000,000 annually or as much as the Secretary of Agriculture finds is necessary to maintain the timber supply from the Tongass National Forest to dependent industry at a rate of four billion five hundred million foot board measure per decade. Such sums will be drawn from receipts from oil, gas, timber, coal, and other natural resources collected by the Secretary of Agriculture and the Secretary of the Interior notwithstanding any other law providing for the distribution of such receipts: *Provided*, That such funds shall not be subject to deferral or rescission under the Budget Impoundment and Control Act of 1974, and such funds shall not be subject to annual appropriation.

31 USC 1401 note.

Forest materials purchasers, loan program.

(b)(1) The Secretary is authorized and directed to establish a special program of insured or guaranteed loans to purchasers of national forest materials in Alaska to assist such purchasers in the acquisition of equipment and the implementation of new technologies which lead to the utilization of wood products which might otherwise not be utilized. The Secretary is authorized to promulgate such regulations as he deems appropriate to define eligibility requirements for the participation in the loan program and the terms and conditions applicable to loans made under the program. Except as otherwise provided in this section or regulations promulgated specifically for this loan program, such program shall be carried out in a manner which is consistent with other authorities available to the Secretary.

Appropriation authorization.

(2) To carry out the special loan program established by this section, there are hereby authorized beginning after the fiscal year 1980 to be appropriated $5,000,000 from National Forest Fund receipts, to be deposited in a special fund in the Treasury of the United States to remain available until expended. Repayments of principal and interest and other recoveries on loans authorized by this section shall be credited to this fund and shall remain available until expended in order to carry out the purposes of this section.

Study, transmittal to Congress.

(c) Within three years after the date of enactment of this Act, the Secretary shall prepare and transmit to the Senate and House of Representatives a study of opportunities (consistent with the laws and regulations applicable to the management of the National Forest System) to increase timber yields on national forest lands in Alaska.

(d) The provisions of this section shall apply notwithstanding the provisions of section 6(k) of the National Forest Management Act of 1976 (90 Stat. 2949).

16 USC 1604.

REPORTS

Transmittal to congressional committees.
16 USC 539e.

SEC. 706. (a) The Secretary is directed to monitor timber supply and demand in southeastern Alaska and report annually thereon to the Committee on Energy and Natural Resources of the Senate and the Committee on Interior and Insular Affairs of the House of Representatives. If, at any time after the date of enactment of this Act, the Secretary finds that the available land base in the Tongass National Forest is inadequate to maintain the timber supply from the Tongass National Forest to dependent industry at the rate of four billion five hundred million foot board measure per decade, he shall include such information in his report.

Review and report to Congress.

(b) Within five years from the date of enactment of this Act and every two years thereafter, the Secretary shall review and report to Congress on the status of the Tongass National Forest in southeast-

+ REMARKS OF ED LAPEYRI

EXHIBIT #6

BEST AVAILABLE COPY

Senator BAUCUS. Thank you very much, Ed, for your testimony. You have made quite a contribution to your industry.

STATEMENT OF JOSEPH McCRACKEN, EXECUTIVE VICE PRESIDENT, WESTERN FOREST INDUSTRIES ASSOCIATION, DILLON, MONT.

Mr. MCCRACKEN. Senator Baucus, I am Joe McCracken, executive vice president, Western Forest Industries Association. I have been asked to talk, briefly today, on behalf of some of the Montana operators. Mr. Satterlee of Stoltz Land & Lumber Co. regrets very much that he was unable to be here for personal reasons, but along with Stoltz Land & Lumber Co., Owens Hurst Lumber Co. in Eureka, Mont.; Superior Buildings, at Columbia Falls, Mont.; American Timber Co., at Olney, Mont.; and Brand S Corp., at Livingston, Mont., have asked me to make some comments for them. They are all deeply appreciative of the interest of you and this subcommittee in this subject.

Senator BAUCUS. I appreciate that, Joe. I have a letter from Royce Satterlee, too, which we will make part of the record.

Mr. MCCRACKEN. Briefly, as has been discussed before, there are maybe two facts I would stress that give some added dimension to the dilemma we are in. It was in 1980, in response to an act passed by Congress in 1974, that then-President Carter submitted to Congress an assessment of the wood needs of the United States and the supply of timber for the United States in the decade of the eighties. This report that was, mind you, submitted only 2 years ago indicated that there would be nearly a 16 or 17 billion board foot shortage of timber, given the estimated demands in this decade. Of course, since there cannot be a shortage, what was going to happen was an explosion in prices for lumber and plywood.

Unfortunately, a lot of the industry read that and agreed. That assessment, of course, is now being redone and will be a much lower figure.

The second fact I would indicate was that in 1978, just 4 years ago, the United States consumed 41 billion board feet of softwood lumber. This year, Senator, we will consume about 24 billion board feet of softwood lumber. So we have lost nearly 27 billion board feet of market in just the last 4 years. That is another way of spelling out the tremendous unused capacity we now have, because we have the capacity to produce 41 billion feet for only a market of 24 billion.

The Montana operators, as you know, Senator Baucus, have different opinions about the termination legislation. They do agree, however, on two things in Montana, most definitely. One, they do definitely agree that we have to continue the current viable timber set-aside program. That is a very important program to all independent operators in your State. The second thing they do agree on is that if there is going to be termination legislation, they want the purchaser credit provision to be most definitely a part of that legislation, because that is the one thing that would make equity for the Rocky Mountain region.

This is particularly true, as Mr. Bennett said, because of the recent court of appeals decision on the California RARE II case.

You find in the Rocky Mountains many areas that are heavily unroaded and therefore subject to this decision. It may be some time before those areas can be entered now with timber sales or anything, which puts some of the operations in the Rocky Mountain region and some in Montana dependent upon the timber they now have under contract for the next 2 or 3 years. Most of the timber they now have under contract from the Forest Service is not economically operable, unless the road credits are made effective and the Government pays them for the roads that are built. It is really because of the court of appeals decision that the purchaser credit aspect of the legislation becomes very important.

I would add just one other comment about the letter which was discussed between yourself and Mr. Harwood. It was signed by Paul Hayrund, California. Paul Hayrund is a good friend of mine, who was a member of our association for many years. The letter reflects deep frustration on the part of those people in California, and an inability to buy Forest Service timber or ample supplies of Forest Service timber.

It is like comparing apples and oranges. Firms of that size are unable financially to really operate on the size of Forest Service timber sales that the rest of the gentlemen do operate on. They need more SSTS timber sales, obviously, in California. That is the type of sale they can handle. They obviously are not getting enough of that volume. They need more. And perhaps, as their letter indicates, there should be some sealed bids or things like that.

We are very sympathetic to the problem they indicate and the frustration they have. But we do not agree with their conclusion on the legislation. Thank you very much.

Senator BAUCUS. Thanks, Joe.

[The material follows:]

F. H. STOLTZE LAND & LUMBER CO.

Lumber Manufacturers

Box 1429 COLUMBIA FALLS, MONTANA 59912

November 1, 1982

The Honorable Max Baucus
United States Senator
Senate Office Bldg.
Washington, D.C. 20510

Dear Max:

This letter is to follow up on our conversation in Kalispell on October 28th concerning the Timber Sale Contract Relief Bill (S 2085).

I could go into a long discussion as to the origin of this bill, the many industry meetings and the compromises between different segments of the industry prior to the introduction of this legislation; but, it probably would not add any substance to this letter.

Our industry does have a serious problem with most of it being in the coastal areas of Washington and Oregon at this point in time.

We have been in a recession in our industry for the past 36 months. For 3 years prior to this recession our industry was doing very well because of a high demand for forest products. During these good times many operators and particularly those in the coastal regions of Oregon and Washington, decided that the millennium had arrived for the industry and that already high prices would keep on increasing forever. Because of this attitude and a real crunch between timber supply and demand, timber sales were bid up to extremely high prices with the expectation that inflation would make the sale profitable by holding it until the latter part of the contract period.

When the recession came in the fall of 1979 most of our industry was not too concerned because we were used to a 5 year cycle where we had one loss year followed by a recovery where each succeeding year was better until we had the next bust.

By the late summer and fall of 1980 it was apparent that this recession was going to be different and would possibly last for several years. The Forest Service offered some relief for timber sale contract holders by relaxing extension policies

14-654 O - 83 - 6

The Honorable Max Baucus
United States Senator
Senate Office Bldg.
Washington, D.C. 20510

and allowing either a 1 year or 2 year contract extension for sales which were near expiration. These extensions were not cheap, as in most cases they involved increased prices and prepayment of stumpage prices, but they did offer a way to keep from defaulting on sales.

By 1981 we all realized that many people would be in serious trouble by 1983 because of expiring sales and those operators who held extremely expensive sales were in danger of being wiped out.

In attempting to resolve these problems the majority of our industry decided that S2085 was the best solution to our industry problem.

The primary elements of this bill are as follows:

1. Authorizes purchasers to terminate up to 40% of timber under contract with only minor penalties.

2. Authorized contract term adjustment for up to 5 years on other sales with no change in stumpage price, but would require a fixed removal schedule or prepayment of stumpage.
3. Terminated sales would be reoffered as part of regular sales program.
4. Purchasers who terminate sales would be allowed to rebid these same sales.
5. Forest Service sale offerings would not exceed 4.1 billion board feet in FY 1983 and 1984 in Region 6.
6. All purchaser credit would be fully effective and transferable from one timber sale to another.

I am not in favor of this legislation because it is not equitable and because I do not think it will pass or should pass.

This legislation is not equitable because it will change the competitive relationships within our industry to the detriment of those of us who are inland in the more marginal timber areas.

Item #6 above was put in the bill only to generate support from those of us in Idaho and Montana who operate in marginal areas where often-times the timber sale will not support the road which the Forest Service puts in the sale.

The only item in this bill which I believe is fully equitable is the provision that allows contract term adjustment for up to 5 years. This leaves everyone in the same competitive position

The Honorable Max Baucus
United States Senator
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but does give everyone a chance to work off their mistakes over a period of time.

This 5 year contract term adjustment, in my opinion, is the only relief that should be offered to our industry at this time and I believe that it will allow most of the industry to survive for several more years until better markets and prices allow the orderly cutting of these problem sales.

If these better prices and markets do not materialize over the next 2 years then I believe that we will need to look at more stringent measures.

This 5 year contract term adjustment will also help those operators who are not necessarily in trouble because of extremely high priced sales, but are in trouble because of not being able to sell their normal production; consequently, they have had their sales bunch up on them where it will be difficult to get them completed prior to expiration.

I would like to point out that there is a big difference between contract term adjustment and a contract extension and that it is important that the 2 terms not be confused.

Under a contract extension the Forest Service can change the conditions and costs of a sale where under contract term adjustment the terms of the contract remain the same but the time is extended. Under contract term adjustment you also could have conditions such as volumes to be removed by certain time periods or penalties if these volumes were not removed.

Sincerely,

F.H. Stoltze Land & Lbr. Co.

Royce Satterlee
Gen. Mgr.

RS:dh

STATEMENT OF ARNOLD EWING, EXECUTIVE VICE PRESIDENT, NORTHWEST TIMBER ASSOCIATION

Mr. EWING. Senator, on short notice I have written my testimony in rough draft, and I ask that I be allowed to read portions of it, recognizing your time. I would like to type a full statement and put it in your record.

Senator BAUCUS. All statements will be placed in the record.

Mr. EWING. I am Arnold Ewing, executive vice president of Northwest Timber Association. We represent some 40 small business independent operators in western Oregon and western Washington, nearly 100 percent dependent upon public timber for their supply. So any actions that are involved in the Forest Service and the BLM are very critical to us in our operations. I am just going to hit two points on this legislation, and I will go to two other points, if you do not mind.

In the late sixties and the seventies, a real push by large operators to purchase key small businesses was made. There was a tremendous concentration of the industry going on at an alarming rate. I know; I lost many of my members because they were purchased by large ones. In the early seventies, the present set-aside program was initiated. I am pleased to say that this program placed brakes on that acquisition. I would say the program is working on that basis.

Now we have a catastrophe situation that could do more to wipe out small business than all of the earlier acquisitions ever dreamed possible. This catastrophic dilemma is our Forest Service and BLM timber sale contracts. The difference is that this dilemma or cloud hangs over both small and large businesses. Many opponents of the present proposed legislation, S. 2805, have painted it as a relief package for large business. If one simply looked at the total potential damage, that dollar value would be substantially greater for large business. There is more to measure than the potential total damages.

Large operators would survive. They would, in many cases, be severely crippled, maybe curtailed in their operations and maybe hurt the economics of the State, but they probably would not go bankrupt. Small business on the other hand faces a proportionately much greater potential dollar damage. In fact, the overhang is two to five times greater than their total net worth. With these kinds of loads, these mills would go bankrupt. We are facing the most severe catastrophe with the demise of a very large percentage of small business mills that we have ever experienced in the past.

Our mills will go broke and the concentration in the industry will be severe, not because of the actions of large business but because of the lack of action by the administration. I will skip over the rest of my testimony and drop down to two other issues I think we need to address as an industry from these areas.

One of these issues is an effort or a proposal that a transaction evidence appraisal system should be initiated in parts of the Northwest. Presently, this method is being used in the South and the Lake States. Both areas have severe concerns with the appraisal system. Not knowing the exact problems there, I will try to turn that around. I consider myself an expert in the Forest Service ap-

praisal system in the Northwest, and I will try to use our area to show you the problems that we see.

The Forest Service in our area presently uses a system called residual values as a basis to arrive at the appraised price. Quickly, I will demonstrate. Residual value is the result of their collecting actual transaction evidence, copies of our invoices, where we sell lumber and plywood. We mail those to a third party who compiles them for the Forest Service. So the Forest Service knows what we get for all grades of lumber and plywood. They have the actual selling values that we realize out of that log. They, in turn, have mill studies that are well-done by the Pacific Northwest Range and Experiment Station, that recognize the value by lumber grades and the volume of recovery we get by each log. They also know the manufacturing costs because of these studies.

So they take the selling value of the total finished products—and subtract from this the costs of milling, logging, road construction, and then allow a minimum amount of dollars for profit, like 10 percent or 11 percent depending on the risk. The remainder is called the residual value. That is a fair and equitable system, using the right figures, and the Forest Service regularly tries to update their studies. They have just now completed a mili study within the last 60 days. After it is reviewed, it will be included into the appraisal systems. In 1983, they will initiate another one. So, they can keep current with the selling values and mill efficiency.

Now, transaction evidence has no reflection to what the timber is worth. It has a reflection of what we have bid for the timber. One would say, what you bid, is that not a neasure of the value? I think economists would say, it may be, if it is truly an arm's length transaction. I submit that the Forest Service is in a monopolistic position in our country. We have no alternative source of supply. When they arrive at a price, that might be our top dollar; we have no choice. We bid it. I subscribe that the Forest Service, using this system of appraisals in the Pacific Northwest, is discriminating against small businesses.

Why only against small businesses? Because we have no private timber to turn to. We cannot make an arm's length transaction. We arc adamantly opposed to this system of transaction evidence appraisal.

Now let us talk about another one for a minute. Tree measurement sales is a system used in some areas of the United States where the timber is shorter, less defective, or younger timber in the second or third generation where you do not have the defects. I will make no comments on the effectiveness down there, but I will talk about the ineffectiveness and inability to use it in the Northwest.

In the Northwest there is what we call cruising. We go out and examine the tree. I have cruised hundreds of millions of board feet of timber, personally. This is one of the most inadequate methods of determining net volume in decadent, defective old-growth timber. One must stand on the ground, look up and down the tree to detect clues that may indicate defects. In Oregon and Washington, more often than not, this is looking up through a pouring rain, fog or snow, then trying to peek through dripping limbs to determine the net volume. This estimated volume in actual removal can

vary as much as 50 to 60 percent. This represents an unneeded substantial risk to the small business operators.

In my opinion, this proposal represents input from people in ivory towers, with just enough knowledge to make them dangerous. We adamantly oppose tree measurement timber for determining volumes in our old-growth forests.

Thank you very much.

Senator BAUCUS. Thank you very much all of you.

Mr. EWING. One more thing I need to address, if you do not mind, sir.

Our limited few adversaries on S. 2805—I do not necessarily intend to put their material out for them. In case there is an article from the Eugene Register-Guard, a guest editorial, which comes to your hand, I will also see that you get a copy of a guest editorial that our association put in the Eugene Register-Guard today. I am asking them to mail a copy to you, in rebuttal to our ex-congressman Charlie Porter. I had to look at his name, and I am from his district. My best comment here is, this gentleman's mentality in this could be an indication why he is no longer in the U.S. Congress. That is my personal opinion.

Thank you.

[The prepared statement of Mr. Ewing follows:]

STATEMENT OF ARNOLD D. EWING
BEFORE THE
SENATE SMALL BUSINESS COMMITTEE

REGARDING: S.B. 2805

December 7, 1982 - Washington, DC

Mr. Chairman, my name is Arnold D. Ewing and I am Executive Vice President of North West Timber Association, Eugene, Oregon. We are a trade association comprised of independent lumber and plywood manufacturers all of whom are classified as small business, and all are dependent on federal timber for their raw material supply.

In the late 1960's, early 1970's a real push was made by large operators to purchase small businesses. This concentration of the industry was going on at an alarming rate. In the early 1970's the present set-aside program was initiated. I am pleased to say this program placed brakes on that acquisition drive.

The present set-aside program <u>is</u> working to retain a cadre of small business. Now we have a catastrophic situation that could do more to wipe out small businesses than all of the acquisitions ever dreamed possible.

The cause of this catastrophic dilemma are the Forest Service and Bureau of Land Management (BLM) timber sale contracts. The difference is that this dilemma or "cloud" hangs over both small and large businesses. Many opponents

of the present proposed legislation, S.B. 2805, have pointed to it as a relief package for large business. If one simply looked at the total potential damages, the dollar value would undoubtably be greater for large business. There is more to measure than the potential total damages.

Large operators would survive. In many cases they would be severly crippled, but they probably would not be bankrupt. Small business, on the other hand, face proportionately much greater potential damages. In fact this overhang is two to five times greater than their total net worth. With these kinds of loads the mills will go bankrupt.

We are facing the most severe catastrophy, with the demise of a very large percentage of the small business mills, that we have ever experienced in our history. Our mills will go broke and the concentration of the industry will be severe, not by the action of large business but due to lack of action by this administration.

At that point I am sure that someone would suggest relief only for the small business segment of the industry. Being very realistic politically, I am also sure there is absolutely no chance for relief without a total package for the whole industry. In fairness and best interests of our national economy, relief is sorely needed for all segments of our industry.

I need to address two other issues that certainly do not have the same severity as the need for S.B. 2805, but they have significant adverse impacts on our industry--especially on small business.

The first item is the effort to place transaction evidence appraisal as a means for arrival at the appraised price of Forest Service timber in the northwest. Presently this method, generally referred to as TEA, is in affect in the southern and the lake states. Both areas have serious concerns with this appraisal system. Knowing our system in the Pacific Northwest and the surrounding factors I will base my remarks and opposition as it affects the Pacific Northwest.

The Forest Service presently uses the system of residual values as the basis to arrive at the appraised price. The Forest Service receives copies of invoices of approximately 80 percent of our industry. This provides the Forest Service with actual dollars received for species and grades of lumber and plywood. The Forest Service also made mill studies that determine the grades and recovery of lumber realized from the logs. These mill studies are constantly upgraded. One study has just been completed in the past 60 days. Another one will be completed in 1983. These new studies will be interpreted to reveal new efficiency in recovery volume, costs of operation, and feel for the changing markets.

The actual selling values are used and the collected costs and recovery studies are deducted from the selling value. A percent profit is then also deducted

from selling value and the residual value, commonly referred to as appraised price, is arrived at. This is a practical, sensible, and fair way to determine the timber value.

The new proposed TEA has no relationship to lumber and plywood values. Some uninformed people would suggest that what we bid is a good measure of the value of timber. Any economist would hasten to qualify that if there were a true arms-length transaction this may be a reasonable tool. The facts of life are that the Forest Service has an absolute monopoly on timber supply at least for 95 percent of the small business operators. It is not an arms-length transaction. There is no alternate source of supply.

This method of appraisal actually discriminates against small business operators with no private timber. Also, it does not follow the market in an orderly manner. We may be panic bidding because of limited offerings from the government at the same period that the finished product is declining.

We are adamantly opposed to initiation of this appraisal system. I would suggest one should consider the concerns of these operators in those areas where it now exists.

Item two is initiation of tree measurement sales in the Pacific Northwest. The use of of tree measurement sales is a system where the Forest Service estimates

the volume of the standing trees and operators pay a lump sum price for the tract whether it cuts out to that estimated volume or not. This system is called timber cruising. I have cruised millions of board feet of standing timber. This is one of the most inadequate methods of determining net volume in decadent, defective old-growth timber. One must stand on the ground and look up and down the tree to detect clues that indicate defect and then guess the amount of deduction for any defect. In Oregon and Washington more often than not this is looking up into a pouring down rain, fog, or snow and then trying to peek through the dripping limbs to determine value. The estimated volume and actual removal can often vary as much as 50-60 percent. This can represent a substantial money risk.

In my opinion, these proposals represent input from people in ivory towers with just enough knowledge to make them dangerous. We oppose Tree Measurement Appraisal for determining the volume in our old-growth forests.

[From the Eugene, Oreg. Register-Guard, Dec. 8, 1982]

EDITORIALS—PORTER'S TIMBER ANALYSIS CRITICIZED

To the editor:

Charles O. Porter, in his guest column on Dec. 1, 1982, showed why he is no longer a congressman. He couldn't analyze the state of affairs then and he still can't.

He fails to recognize that the overpriced timber under contract will not be harvested at the purchase price. The two choices are termination or default. Default entails long legal battles, large legal fees, and possible settlement for a few cents on the dollar.

The timber relief legislation would be orderly, much less costly to the government, and not deplete the resources of the companies involved. The government is a timber monopoly. It must assume at least part of the responsibility for the high prices of stumpage and lack of market for finished products.

Our governor and the state legislators recognized this. The Association of O&C Counties and the Association of Oregon Counties recognized this. Our United States senators have recognized this, but Charles Porter missed it.

Mr. Porter didn't recognize all the co-sponsors of the legislation. Senator Murkowski is from Alaska, but for someone who says he is knowledgeable in political affairs, Mr. Porter should recognize Sen. Slade Gorton from our neighbor state, Washington.

Mr. Porter names a few large companies that would benefit from the legislation but conveniently forgets the scores of small companies that would either be bankrupt or weakened to the point of questionable recovery if the legislation does not pass.

Although the dollars may not be as large, the impact can be much greater on a small business. In many cases the non-recoverable timber debt far exceeds the company's net worth. I firmly believe that no legislation can be passed without the assistance of large business through a total industry effort.

The timber relief bill is not a "bailout." If two private companies are involved in a contract that cannot be executed, a renegotiation takes place in the best interests of both parties. The governor's blue-ribbon panel recognized the need for relief and recommended renegotiation on state contracts. After the hearing the state legislators came to the same conclusion and passed Senate Bill 985 to roll back state timber prices on existing contracts.

The result was the largest volume of state timber ever harvested over such a short period of time. It was estimated by the state forester's office that the legislation saved 1,400 jobs.

There have been no less than three hearings on national timber relief legislation, with another scheduled for [today]. The legislation passed out of committee by 13 to 1. Representatives of Oregon's mills, labor unions, and counties testified in favor of relief. Mr. Porter had better do his homework before he makes as ridiculous a statement as he did in his column.

Defaults will not make jobs, aid a wounded industry, add money to county coffers, or best serve Oregon, but they will make a few lawyers richer. Mr. Porter, as an attorney, should understand that.

Mr. Porter has suggested letters to Senator Hatfield. I agree you should write the senator and thank him for the tremendous effort he has already given to prevent massive bankruptcies in Oregon.

Thank the Lord that we have a statesman such as Mark Hatfield who sees the big picture and the need to maintain jobs and a tax base for Oregon.

Senator BAUCUS. Thank you very much.

I would like to ask all of you whether the purchaser credit provisions of S. 2805 are more important to small business than, for example, the 40-percent termination provisions or the contract extension provisions?

Mr. BENNETT. In the Rocky Mountain area, there is no question that the purchaser road credit is the most important issue. Termination would be very lightly used, as I see it. Our company, for example, probably would not terminate any timber sales in view of the impending shortages ahead, as long as we had a time for the adjustment of termination dates, which is also part of the bill. Pur-

chaser road credits is the key thing, because that would make most of our timber sales under contract operable.

I might explain purchaser road credits just briefly to you, so that you will understand why they are so important. We had lots of timber sales. We may have paid $1 million for timber sales, and the road may have cost $600,000. We had no problem when we bought the timber sales; the road was going to be fully paid for by the Forest Service in purchaser road credits. However, the market, since we purchased those sales in 1979 and 1980, has dropped considerably. In some cases it has dropped 50 percent. Consequently, the timber has deescalated down now to where its value may be $100,000, which is the base rate. So we have a completely ineffective road credit of $600,000. We just cannot operate those sales.

If purchaser road credits were made effective, at that point we could begin operating our Federal contracts, and we would be operating our Federal contracts.

Senator BAUCUS. Would that same answer apply to Alaska?

Mr. LAPEYRI. Yes; that is a good question. Let me give you an example on one of our sales. You value the timber after the appraisal system at $300,000. The value of the road was $5 million to build into this timber. In this particular situation, the $5 million PC was ineffective. We could have bid $300,000, the minimum bid for this timber sale, or you could bid $5,300,000 for the timber sale and put your road credits in as effective road credits. Both bids would have been exactly the same. However, the system calls for the highest total bid.

Normally what happens in a situation like this is, you bid in your PC's. Because if an ineffective PC was effective to start with, we would have paid less for the timber sale. We would have bid it at $300,000. We would have had the effective PC. But when it becomes ineffective, we bid it in, in order to try to get an advantage over our competition in buying the timber sale. So the bill would recognize an ineffective PC and make it effective, and we would not have to bid as high, and therefore we would not be standing with a $350 stump. We would be setting down with a more reasonable stump, closer to our major competition, the large companies which, on their long-term sales, do not have this problem. All of their road credit PC is effective. Their net stumpage on spruce is $2.87, while mine is up around $3.80.

Senator BAUCUS. What if not S. 2805 but by some other vehicle the purchaser road credit provisions of that bill were made an amendment to some other bill and passed into law? Would you favor that approach, or would you oppose it because it does not also include the other provisions of S. 2805?

Mr. BENNETT. Selfishly, we would take whatever we could get. However, we do not feel that is feasible. We feel that the only way this bill has a chance is to have as unified an effort behind it as possible. By trying to pick and choose the best parts, if we try to pick purchaser road credits, for example, which is what we would pick, then naturally the coastal operators—where this is not a problem—would pick termination or adjustment of price or whatever it might be. It is just that you really have to have all the industry together on this one or as much as possible, which we do have at present.

Senator BAUCUS. Let me ask what may be a tough question going to "as much as possible." What if the bill were modified so that it would apply to, say, 60 percent of the operators or 75 percent of the operators, or 80 percent? I am just trying to figure out where you draw the line in order to get the bill passed. It may be that the two or three biggest operators may not be able to realize as many of the benefits of this bill as some of the smaller operators in order for the bill to pass. I know it is hard for you to answer the question, but if you can take a stab at it, it might be helpful.

Mr. BENNETT. Senator, I feel that any substantive change in the bill would cause us to start losing support with various sectors of the industry, and we would lose support.

Senator BAUCUS. I very much understand that. That is the dilemma in which I see this bill. On the other hand, the bill in its present form is running into other opposition in the Senate. I am just wondering if there is some other way to skin this cat.

Mr. BENNETT. We have worked for practically 1 year now, negotiating with various segments of the industry on behalf of two Senators, McClure and Hatfield. We have met with different segments of the economy. We have met with different sections of the country. I have talked to people in the Southeast who are opposing this, for example. I have some people that support the agreement completely and some that say "Baloney."

Senator BAUCUS. It sounds like the Senate.

Mr. BENNETT. Right. We have a majority now in favor of the bill. It is the best majority we have ever had in support of the present bill. I feel that any change with one thing, somebody is going to want to change something else and then we are going to lose the point immediately.

Senator BAUCUS. I understand that.

I want to say how much I appreciate your testimony, as well as that of other witnesses. I very much understand what you are saying. And Joe, your figures tell the story as well as any other: That is, in 1978, about 42 billion board feet were on the market, and obviously now it is 24 billion, which shows what has happened in the last several years. With the continued economic outlook not entirely rosy during the next year, who knows whether interest rates are going to decline quickly or whether housing starts are going to go up. I know it is that much more difficult for most operators to hang on. We have to do something quickly, and I do think that this hearing is going to help explain to some others who are not as aware of the condition of the industry and how desperate conditions are, so that we can help ensure the passage, if not S. 2805, at least something that is similar to it.

I want to thank you all for coming, at great expense and great hardship. We appreciate it very much.

The hearing record will be kept open because some of you may have additional comments you want to make. Other members of the committee may have questions they may want to ask in writing of various witnesses. It will be kept open for about 30 days.

Do any of you have any points you want to make?

Mr. MCCRACKEN. Thank you, again.

Senator BAUCUS. You bet, Joe.

Mr. BENNETT. On behalf of the group, I would like to thank you, and I would like to make sure you are aware of one thing. You touched on it several times, and that is that 50 or 55 percent of the timber purchased from the National Forest Service System is purchased by small business, and that part of the economy we want to keep alive.

Senator BAUCUS. I appreciate your drawing that point out very well several times. Thank you very much.

[Whereupon, at 4 p.m., the hearing recessed, to reconvene at the call of the Chair.]

APPENDIX

INDUSTRIAL FORESTRY ASSOCIATION,
Portland, Oreg., December 8, 1982.

Hon. SLADE GORTON,
Chairman, Productivity and Competition Subcommittee, Senate Committee on Small Business, Washington, D.C.

DEAR MR. CHAIRMAN: The Industrial Forestry Association would like the following comments to be included in the record for the oversight hearing on economic problems facing small and independent businesses in the forest products industry being held on December 8, 1982.

The Industrial Forestry Association supports S. 2805. We believe that all major points in the bill which were discussed and negotiated within the industry over a long period of time must not be changed. On the basis of these points a major industry consensus representing all sizes of businesses has been developed.

All sizes of members within our association believe that passage of S. 2805 is essential to prevent chaos within the Pacific Northwest. Without its passage some companies will become bankrupt and operations will be closed. The local economies in numerous communities will be severely impacted and many small businesses in these communities will fail.

We hope that you will give your support to this legislation which is essential to help solve the federal timber sale problems of the small, medium, and large forest products companies in the Douglas-fir region of western Washington and Oregon.

Sincerely yours,

NORMAN E. BJORKLUND,
Executive Vice President.

STATEMENT OF HORACE G. PIERCE, EXECUTIVE VICE PRESIDENT, NORTHEASTERN RETAIL LUMBERMENS ASSOCIATION

Mr. CHAIRMAN: I am Horace G. Pierce, Executive Vice President of the Northeastern Retail Lumbermens Association, headquartered in Boston, Massachusetts. The NRLA represents 1,500 independent retail lumber dealers in the six New England states plus New York. Most of our dealers qualify as small business. Many members have owned their businesses for several generations.

We applaud the Committee for holding this oversight hearing on the economic problems facing the forest products industry, and hope that our testimony and that of others will move the Congress to act to relieve circumstances facing the industry, resulting in more than three years of extremely difficult economic business conditions.

Retail dealers see three major issues negatively impacting their ability to survive: federal timber contract policies, efforts to impose a duty on imported Canadian lumber, and fiscal policies resulting in excessively high interest rates.

RELIEF FOR FEDERAL TIMBER CONTRACT HOLDERS

Manufacturers of forest products are not the only businesses which suffer when housing demand dries up. Lumber dealers, located in nearly every town in the U.S., are the first to feel the drop in demand when customers refrain from spending on home improvements, energy conservation systems, renovations, and residential or commercial building. Lumber dealers are also the first to hear from the customer when prices rise.

Mr. Chairman and members of the Subcommittee, we have felt severely the drop in demand for home building and improvements due to sky-high interest rates, reduction in low-income housing projects, and tightened consumer credit. And we are

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about to be right up there feeling the wrath of the consumer when, if we are to believe the economic gurus, the economy turns upward next year and housing is stimulated. Why? We believe that current federal timber contract policies will force prices of lumber products higher—much higher.

Companies, both large and small, which purchase federal timber, supply the nation's lumber dealers. Severe competition for available federal timber sales and decisions based on now-faulty economic assumptions caused unprecedented high bids by purchasers who are now faced with cutting these contracts at a time when they cannot afford to manufacture the timber into usable products and break even with their costs. Many companies will, therefore, default on their obligations to the federal government, i.e., the taxpayer. After more than three years of depression in this industry, some companies will be bankrupt if they are forced to cut these high-priced sales. This results in retailers being faced with fewer choices of suppliers. Those suppliers who are still able to manufacture lumber products will have to provide very high priced products to recoup their costs, which will fuel inflation.

Pending before the Senate is the bill S. 2805 which will help relieve the pressure on federal timber purchasers who hold high-priced contracts. As provided in the bill, contract holders could turn back 40 percent of their contracts and buy lower priced contracts. We believe this would enable federal timber purchasers to blend in high-cost with low-cost timber and produce lumber products which will be affordable at our end of the supply chain.

The long-range cost to the government for providing contract relief will be far greater than the estimated immediate cost if the nation loses producers, home-builders, and lumber dealers due to high-priced products. Therefore, we strongly urge the Congress to pass S. 2805 this year.

TARIFF ON CANADIAN IMPORTS

An additional complication has been caused by unstable raw material availability due to perceived timber shortages, land use restrictions, and resulting high priced timber. The U.S. government's contract policies have created a disparity between U.S. lumber and Canadian lumber. Canada can now sell its lumber in the U.S. cheaper than our own domestic producers can. Major inroads into U.S. markets, particularly in the northeastern and southern regions, were recently documented in a countervailing duty petition filed by the U.S. Coalition for Fair Canadian Lumber Imports. The Coalition claims that Canadian producers have captured approximately 30 percent of the U.S. softwood lumber market, and therefore, a duty should be imposed on Canadian imports.

Such a duty is against this Administration's free trade policies and inflationary. A duty would further restrict lumber supplies in any area which relies on Canadian imports.

The National Association of Home Builders estimates that any duty on Canadian lumber would proportionately increase the price of a new house. In addition, when housing starts approach 1.7 million, there is not enough capacity in the U.S. to supply the demand for forest products. Traditionally, the U.S. has turned to Canada to fill this void.

Currently, the Northeastern Retail Lumbermens Association is surveying its membership to find out just how much impact such a duty would have. Preliminary responses have shown that a duty would cause curtailed imports and proportionate sales losses. Equally feared is the possibility of duties on other building products imported from Canada, such as cement, gypsum, and composite board products. Such an occurrence would be disastrous for our members.

Our Board of Directors has officially adopted a position to oppose the imposition of duties on Canadian forest products in favor of letting the free market dictate. We feel that when the housing market is stimulated, and world-wide markets improve, there will be plenty of demand for producers on both sides of the border . . . another reason we need to keep our own industry alive by passing S. 2805.

FEDERAL FISCAL POLICIES

The above problems have been exascerbated by extraordinarily high interest rates which have resulted from such factors as tight monetary controls, excessive federal spending, budget imbalance, and inflationary anticipation. While federal spending cuts are needed, they should be carefully calculated so as not to bring fundamental harm to our nation's economy, or permanently disable any significant sector of that economy.

In the construction area, home building which involves countless jobs and a broad range of beneficial activity, can improve and strengthen our nation's economy in a

productive and socially important manner. Help in sustaining that industry and permitting it to do its job of restoring health to our economy is found in continuing such effective programs as the HUD 235 home ownership assistance program and the 312 rehabilitation program for targeted areas where net benefits in terms of employment and tax collections more than offset their modest cost.

SUMMARY

The small lumber retail dealer will not survive if the conditions I've mentioned are not corrected. We urge the Congress to consider our suggestions.

Thank you, Mr. Chairman and Members of the subcommittee, for the opportunity to state our views.

STATEMENT OF JOHN C. MILLINER, JR., EXECUTIVE VICE PRESIDENT, SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION

The Southeastern Lumber Manufacturers Association (SLMA) is comprised of 410 independently owned and operated lumber manufacturers located in twelve southern states. All of our members are small business and are very interested in making sure that S. 2805, a bill "To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes" or any similar bill is not enacted.

The SLMA is opposed to timber contract relief primarily because the lumber industry in the South cannot afford such relief. We believe that S. 2805, described as necessary to save the forest products industry from bankruptcy, will instead provide a financial and competitive windfall to only a few companies in the Pacific Northwest, many of which are big business. Nine large companies would receive 32 percent of the relief, according to their own figures.

Mr. Robert Wolfe, with the Congressional Research Service, in a study for Congressman James Weaver, estimates that the loss to the government of terminating 40 percent of the volume under contract could be $2.6 billion. A study by the Forest Service estimates contract relief for timber sales in coastal Washington and coastal Oregon alone could reach $1.45 billion.

The Federal government is aware of the economic downturn being experienced by the forest products industry along with the rest of the nation and has taken steps in the last two years to respond to the problems caused by this downturn. The Forest Service and the Bureau of Land Management (BLM) have granted extensions of contract termination dates. The Forest Service has granted two such extensions. The first, in 1980, provided for a one year extension, and the second, in October 1981, was for a two year extension and further allowed for a deferral of extension deposit payments on unharvested timber. Also, the Forest Service and the BLM in Oregon and Washington rearranged their 1982 timber sale program in order to make smaller volume and shorter term sales available to timber purchasers. This was done to provide operators the opportunity to acquire timber at prices which could be operated in the current depressed market.

Stumpage prices have come down substantially, enabling operators in Oregon and Washington to reduce their overall cost. During first quarter 1982 (January–March) the average bid price for sawtimber in Forest Service Region 6 was $128.00 per thousand board feet (MBF) while in Region 8 the average bid price was $157.00 per MBF. Because of this differential, the South is experiencing market displacement. Northwest producers have increased their share of the southern lumber market from 14.1 percent in 1981 to 17.2 percent in the first half of 1982. Western lumber is being shipped into our Houston, Texas and Memphis, Tennessee, markets for less than southern operators can manufacture and ship southern yellow pine. We do not want to put western mills back to work if our mills must be shutdown. It does not make sense to shift unemployment and mill shutdowns from one section of our nation to another.

According to the Forest Service "Remaining Volume and Value Report" for the period ending June 30, 1982, the west side of Region 6 (coastal Washington and Oregon) have a remaining volume of 2.6 billion board feet which has a purchase price of less than $200.00 per MBF. This volume is more than the average annual harvest for the past three years. Also, there are several contracts which have been held for five or more years with only right-of-way timber harvested. As an example, one large company has among its contract holdings three sales which total over 24 million board feet purchased at an average bid price of $221.00 per MBF. Only 1.6 million board feet has been harvested and all three sales were purchased in January, 1979 or before.

SLMA's 410 small business lumber manufacturers are opposed to S. 2805. This bill is inequitable and primarily favors only one small region. By their own estimate, 81 percent of the benefits in the bill would go to the operators in the coastal area of Washington and Oregon.

Ninety percent of the timber in the South is privately owned. Our members finance their timber through banks. We cannot terminate our timber contracts and it is not fair for the federal government to terminate contracts and roll-back timber prices when all other timber purchasers must honor their contracts. Attached to this statement as Exhibit A is copy of an article written by ex-Congressman Charles O. Porter that appeared in the December 1, 1982 issue of the Eugene, Oregon Register—Guard entitled "Timber Contract Changes may be Giveaways to the Rich." Mr. Porter states that it is not sound public policy to permit firms holding federal timber contracts to terminate them. He adds that legislation of this sort could be a disastrous precedent. We agree.

Attached as Exhibit B is copy of U.S. Dept. of Agriculture Secretary John Block's letter of November 30 to Senator Jessie Helms recommending that this "bill not be enacted."

President Reagan has opposed this and other proposed "bail-out" legislation for special interest groups. The Administration and others in the forest industry have proposed forms of relief which would be more equitable but proponents of S. 2805 have rejected all efforts of compromise.

I thank you for the opportunity to submit this statement.

EXHIBIT A

[From the Eugene (Oreg.) Register-Guard, Dec. 1, 1982]

TIMBER CONTRACT CHANGES MAY BE GIVEAWAY TO THE RICH

(By Charles O. Porter)

The lame duck session of Congress will really lay an egg if it passes proposed federal timber contract modification legislation. It will be a golden egg from the rest of us taxpayers for Ken Ford of Roseburg Lumber Co., for Boise Cascade, Sierra Pacific, Louisiana Pacific, Bohemia and scores of other companies that yearn to wriggle off the contractual hook.

It will be a rotten egg for local governments like Lane County and for employed persons who depend directly or indirectly on Oregon's wood products industries.

It won't help them. It will mock them in their despair. It will make the rich richer and reduce needed revenues for both the federal and the county governments.

So far President Reagan, bless him in this instance, stands firm against any such subsidy. However, almost all the subsidies are his bosom buddies ideologically and bracketwise. They have clout with him.

Their lobbyists are busy disguising the boondoggle by introducing the word "renegotiation." That word does not provide an adequate answer to the objection that the legislation would be an undeserved bailout for a special interest group.

The legislation, according to an authoritative congressional study, would provide a total company net benefit of $1.9 billion. Ken Ford's Roseburg Lumber Co., a member of the Fortune 500 top companies, leads the pack with a Douglas fir-lined pork barrel worth $155.9 million. Right here in Lane County Stub Stewart's Bohemia walks to the bank, smiling all the way, with $71.5 million.

This kind of subsidy fits in with Reagan's tax reductions for the rich: Give the rich money and count on them to expand their operations to employ more people. Trickle, trickle!

The hard fact, however, is that until demand for wood products increases there won't be any expansion to provide more jobs.

Identical bills "to provide for the orderly termination, extension, or modification of certain contracts for the same or Federal timber, and for other purposes," are pending in both the Senate and the House. The proposed legislation's professed purposes are admirable—and grossly misleading:

"That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from Federal forest lands to the Federal Treasury and to units of local government and assist in the restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands."

Section 2 specifies "upon a showing of economic hardship by the private contracting party," but that does not mean that Ken Ford or Stub Stewart would have to

show that their companies are on the edge of bankruptcy, only that the prices they agreed to pay would make them lose money in today's market.

Of course, in all those years when they bought federal timber at prices which brought them handsome profits in the market, and there were many of those years, they and their industry colleagues never once hankered for "modification" of their contracts. The fair weather sailors are not whining and wheedling for shelter from those harsh economic winds blowing on all of us.

Specifically, they want to be able to terminate timber sales contracts for the purchase of federal timber bid prior to Jan. 1, 1982. They want extension of termination dates of such contracts up to five years, with no penalties, of course. They want modification of the purchase price of the timber sold, reflecting current market values, for such contracts not extended.

They want, in short, a golden egg in their beer, an egg, if I may mix a metaphor, with no strings on it.

Senator Hatfield, for whom I have warm feelings mainly based on his steadfast and intelligent peace positions, filed the bill in the Senate (S. 2805). Jackson and Packwook as cosponsors don't surprise me but Cranston should know better. The other two sponsors, Gorton and Murkowski, I don't recognize.

In the House, my liberal, hard-hitting congressman, Jim Weaver, to my surprise, filed the same bill (H.R. 6913) for himself and Les AuCoin. I hope that Jim just wanted to get the ball rolling and that he has plans to make drastic changes when the legislation comes before his Subcommittee on Forests and Natural Resources if, in fact, it does.

A lame duck session offers very little, if any, opportunity for meaningful hearings. Everybody is in a hurry to get out of Washington. Purposeful lobbyists earn their fat fees in that nondeliberative atmosphere. We suffer the consequences.

No one can deny, certainly not in Oregon, that there is substantial unemployment in woods products plants. It is an industry-wide situation, not limited to the firms using federal timber.

Less timber is being cut. This causes significant fiscal impact on revenues to Lane and other counties. Something effective should be done for the unemployed, for the local governments and for the firms affected.

Extensions of long- and short-term timber sales bid at high prices in the late 1970s, 1980 and 1981, except for certain salvage sales, have already been granted by the Bureau of Land Management and the Forest Service through 1983.

R. Max Peterson, Forest Service chief, based his decision to grant the extensions on "the continuing decline in market conditions for lumber and plywood since early 1981." Mortgage bankers could follow his example and reduce monthly payments for hard-pressed purchasers of homes, except, alas, their stockholders would surely complain.

These extensions, about which specific details have not been issued, may, in my opinion, be illegal as well as bad public policy. After all, these contracts bring in substantial revenues to the federal government and to the counties. If the buyers default, let them pay damages unless good reasons can be shown why not.

Playing Lady Bountiful to the lumber barons is not the answer. Making funds available for timber stand improvement, facility maintenance, recreation use, road and trail maintenance, direct road and trail construction, and takeover timber purchase construction would give many persons remunerative, productive labor. Responsible plans for such operations are available.

Congress might better consider an alternative proposed by the Western Resource Alliance. This would determine how much relief was appropriate and then make a portion available to maintain local governments that are in financial straits, Lane County for one. The grants could be outright or advances against future payments.

Aiding companies in trouble should include specifying eligibility standards more detailed than simply having paid too high a price for federal stumpage. Need should be proven in detail. Provision must be made that the purposes of the aid, survival of the company and increased employment, will be the results. And any such subsidy funds must someday be paid back with interest.

It is not sound public policy to permit firms holding federal timber contracts to terminate them. Legislation of this sort could be a disastrous precedent. The Congress will be flooded with another wave of special interest pleaders.

Federal subsidies aren't necessarily evil but they should not be granted without guidelines and conditions.

If the Congress passes this legislation, 105 companies will be relieved of $2.4 billion worth of contractual commitments. If they bought the volume back at $50 per thousand board feet, their benefits would amount to about $1.9 billion, according to the study made by experts for Weaver's subcommittee.

The impact on federal revenues could approach $3 billion. The federal deficit is far too high already.

Write today to Senator Hatfield and Representative Weaver. Tell them: 1) Don't enact any such legislation; 2) Prepare for hearings early in 1983; and 3) Provide help only to those firms who prove they are deserving and are, in President Reagan's phrase, in another context, "truly needy."

EXHIBIT B

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., November 30, 1982.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN. As you requested, here is our report on S. 2805, a bill "To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes."

The Departments of Agriculture and the Interior recommend that the bill not be enacted.

S. 2805 would authorize the Secretaries of Agriculture and the Interior to modify any timber sales contracts involving National Forest System lands or public lands which were bid prior to January 1, 1982. Three forms of modification are delineated by the bill: (1) termination of a portion of timber volumes under contract, (2) extension of the termination dates of such contracts up to 5 years beyond their original termination date, and (3) modification of the purchase price for contracts not extended. Modification could be made only upon a showing of economic hardship by the private contracting party. The Secretaries would be required to publish procedures for modification of contracts within 30 days of enactment. The authority provided by the bill would expire one year following enactment.

The bill would grant relief to certain purchasers of National Forest System and public land timber. These purchasers hold contracts that cannot be economically operated at present prices for processed products. Since this timber was sold, prices have fallen sharply in response to reduced levels of housing construction.

During the first quarter of 1980, the average bid price for Douglas-fir timber on National Forests in western Oregon and Washington was $486 per thousand board feet. During the first quarter of 1982, this price had dropped to $153 per thousand board feet. Some products have closed or curtailed operations because they hold high-priced contracts, leaving the reduced demand to be met by those producers who have lower total operating costs. Some producers hold both high and lower priced timber so they can continue to operate on a curtailed basis utilizing only the lower priced timber.

The Federal Government plays a significant role in the supply and demand situation for lumber and plywood. About 25 percent of the timber used to manufacture these products is harvested from Federal lands, nearly all of which is managed by the Forest Service or the Bureau of Land Management. The largest volumes of Federal timber are sold in the Far West; sales in the Pacific Northwest and northern California comprise over 60 percent of the average annual volume sold by the Federal Government. Many purchasers in this region own little or no forest land and are heavily dependent upon Federal timber for their raw material supply. Over 80 percent of Federal timber purchases are made by small businesses, purchasing over half the volume of Federal timber sold.

Prices for the Federal timber that is the target for the provisions of S. 2805 were bid excessively high for several reasons. The forest products industry, particularly those firms that owned little or no timber land, expected that as the timber from private sources became scarce, increasing volumes would be made available from the large inventories of Federal timber. Gradual increases did occur from 1950 until 1969 but sale volumes have been at about the same level since then, averaging between 10 and 11 billion board feet annually. Another reason for the uncertainty about supply was caused by controversy over designation of additional National Forest System and public lands as wilderness. Such designations reduced the volume of Federal sales. Continuing controversy over management of other roadless areas on Federal lands created concerns by purchasers about future timber supplies. Inflation, too, has played a role, which, when coupled with increased demand for new housing as a consequence of population growth and new family formations, caused timber prices to move up even faster than the wholesale price index. All

these factors created fierce competition among firms seeking to assure an adequate supply of timber and led to excessive bidding. The producer with timber under contract at least had a hope of protecting his investment, whereas the one without timber was faced with imminent closure of his operation. A number of firms have gone out of business as a result of these competitive factors. Indeed, it is likely that some of these firms made judgments that prices on these sales simply were not prudent.

The Federal timber selling agencies have been acutely aware of the problem being experienced by holders of the high-priced contracts and have taken steps in the last 2 years to alleviate them. Both agencies have granted extensions of termination dates for the contracts. The Forest Service has implemented two such extensions. The first, in 1980, provided for one year extensions under fairly stringent conditions. The second, in October 1981, was for 2 years and provides only that interest payments be made on deferred extension deposits on the price of the unharvested timber. The agency could grant additional extensions under authority of section 14(c) of the National Forest Management Act of 1976 (90 Stat. 2959). The BLM has extended its contracts to December 31, 1983 and could grant further extensions. Also, the National Forests and BLM in Oregon and Washington rearranged their timber sale program for fiscal year 1982 in order to make smaller volume and shorter term sales. This was done to provide operators with an opportunity to acquire timber at prices which they could operate in the current market. Stumpage prices have come down substantially, thereby enabling buyers to reduce their overall costs. Availability of lower priced timber will also permit averaging such volumes against the older, higher priced volumes so that the latter sales can be operated.

The Forest Service has also acted to discourage future purchasers from buying and holding large volumes of timber under contract, thereby deterring a repeat of the bidding which led to high-priced timber contracts. An advance cash deposit is now required of the successful bidder within 30 days of sale award. The amount of the performance bond has been increased. A system of discounting bid prices to encourage early performance of the contract has been established, and the purchaser is now required to make a midpoint payment on the contract. These changes apply to contracts advertised since April 1982; they are not retroactive. The BLM also is changing its procedures to require up front payment of 5 percent of purchase price up to a maximum of $25,000.

They also will require payment of at least 40 percent of purchase price by the end of the second year on a 3-year contract. They will prohibit purchasers who have defaulted from bidding on new sale until arrangements for payment of damages on defaulted sales are made. Also, it will require that the maximum required as installment payments be $50,000 instead of $10,000.

A purchaser who holds the high-priced timber and who does not complete the harvest of timber required by the contract will be in default on that contract. We fully expect some of the high-priced sales to default. The defaulting purchasers will then be liable for damages to the United States. The amount of damages is determined by selling the timber, with the original purchaser becoming liable for the difference between the contract value at the expiration date of the original contract and the resale value, plus costs incurred by the agency in reselling the timber. Under current policies a defaulting purchaser is prohibited from bidding on the resale.

We strongly oppose any rollback of prices on high-priced contracts. Rollbacks are grossly inequitable. It allows those who purchased timber at high prices to enjoy the advantages of holding it without having to pay the agreed price, while those who would not bid the excessive prices have, in many instances, suffered the consequences of not having an adequate timber supply. Contract termination without penalty, while having similar effects, does make the high-priced, inoperable timber available again to all prospective purchasers and would permit early operation of the resold timber to occur. But termination totally relieves the original purchaser of his contractual obligations, all at the expense of the United States. In a free market system mistakes are paid for by the person entering into the contract.

Extension of the contract term without penalty or payment that might otherwise be required simply adjusts the term of the contract. A "contract extension" under the Forest Service contract can be granted under the terms of the contract but this requires a reappraisal of the timber, possibly leading to a higher contract price, and the imposition of additional financial obligations on the purchaser, such as payment for the balance of the timber at the midpoint of the extension period. Under present authority and administrative procedure, the Forest Service is constrained from converting "extensions" to "contract term adjustments" by the provisions of the contract and by the principle that an existing contract cannot be modified to the detri-

ment of the Government. We do not at this point favor legislation to lengthen existing contracts. We believe that if contracts are not operated within the period of extension currently available by administrative action that the contracts should be defaulted and that the defaulting purchasers should pay whatever damages may accrue by reason of default. At present, defaults are not imminent on BLM contracts. Defaults are imminent on only those Forest Service contracts on which the purchaser is either unwilling or unable to meet the conditions for a 2-year extension.

We do see a need for new authority to deal with defaulted contracts; flexibility to deal with a defaulter's obligation for damages is desirable. We suggest legislation that would authorize the Secretaries of Agriculture and the Interior to enter into and to amend agreements with purchasers and their sureties who have incurred obligations for damages by reason of default. Such agreements could specify the schedule for payment of damages; the rate and schedule for interest payments; the security, if any, to be provided; conditions under which subordination of the Government's interest in the security will be granted; and other provisions to which the Secretaries and defaulting purchasers and their sureties might agree. The amount of damages still would be determined either by resale of the timber or by uniformly applicable rules prescribed by regulations developed by the respective Secretaries.

The purpose of such authority would be to assure an eventual recovery of damages by the Government without forcing the defaulter into bankruptcy. We believe that the availability of such authority could save many businesses and prevent much expensive and time-consuming litigation. The Government, rather than implacably pursuing recovery of the amount owed, would in the exercise of discretion conferred upon the Secretaries be able to reach agreement with the defaulter and his surety for payment of the obligation on such terms as would allow the defaulter to remain in business. The United States and the counties which share in timber sale receipts thus would eventually recover the original contract price in many cases, although somewhat later than was originally planned. A draft of legislation that would accomplish this suggestion is enclosed.

While we are cognizant of the need to resolve the issue of high prices, we also stress the importance that the regular timber sale programs of the Forest Service and BLM be carried on during these difficult economic times. This is important to assure availability of wood product supplies on a regular basis and in needed quantities to meet increased market demands in the future at reasonable prices. Timber from these new sales could be harvested promptly, thereby keeping producers operating at least part time as the market for wood products allows. Furthermore, the availability of lower priced timber from these new sales will permit averaging such volumes against the older, high-priced sales so that the older sales can be harvested and processed. Continuing the regular sale program will also permit the accomplishment of our objectives of providing employment and maintaining the flow of receipts to the Treasury and to the counties.

We have conferred with the Department of the Interior in the preparation of this report. It concurs in the contents of this report.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

JOHN R. BLOCK,
Secretary.

Enclosure. (Omitted.)

STATEMENT OF MILTON SCHULTZ, MANAGER, PAUL BUNYAN LUMBER CO., ANDERSON, CALIF.

Gentlemen: Paul Bunyan Lumber Company is a family-owned corporation with sawmill facilities located in Anderson, California. Anderson is in Northern California at the Northern tip of the Sacramento Valley. Paul Bunyan employs 125 people when in full operation. This past year we have operated on a curtailed basis due to poor economic conditions.

We have available to us some private timber, but are dependent upon the sale of Federal timber for at least 50 percent of our annual production of 40 million board feet.

We regularly bid on U.S. Forest Service timber, but have not been a successful bidder for the past 3 years. We have not been able to justify paying the high prices other mills have bid, even though our mill is considered very efficient and enjoys an excellent reputation.

Many operators, mostly larger than our company, have been bidding high prices with little basis for their actions. When the lumber market reversed itself during the past 2 or 3 years and prices dropped, these same operators were caught with sales they could not afford to harvest. Now they are asking for relief through contract termination or term adjustment.

We are opposed to such action. We were a prudent bidder; we refused to get caught up in the frenzy for ever escalating prices; we could see no possible way for a favorable return on the prices that were being bid. We suffered because we did not have timber available to us at prices we were willing to pay. To provide relief to those who were not prudent would be to reward those who did not act in a responsible manner.

Your committee received testimony from several operators in December. Undoubtedly they are suffering from high prices bid on timber. However, these same operators are our competitors in the market place. If they receive relief, what will we get? We have already suffered our losses. Roseburg Lumber Company, our next door neighbor is spending vast sums of money to improve their plant. We would like to spend some of the same money, particularly if Uncle Sam paid for it. If relief is granted, our chances of remaining competitive with this giant company (by our standards) are diminished considerably.

All Federal timber bidders knew the rules before they entered the arena. Those who bid take some risks to achieve some opportunities. If one is not careful, the risks can overcome the opportunity. We see no reason why the rules should be changed so as to remove the element of risk in a competitive society.

We urge that the matter of Timber Contracts be allowed to run their natural course.

STATEMENT OF PAUL HEYREND, PRESIDENT, SMALL SAWMILL OWNERS ASSOCIATION, CHICO, CALIF.

Our association is writing to your committee with hope we may be able to assist you with some ideas for improvement of the limber industry. Our association of small sawmill owners has 110 members presently. The mills can produce from 300 thousand board feet of timber per year, by the smaller ones, to about 20 million board feet by the larger ones. We were formed about 1½ years ago, and have found it very beneficial to us in many ways, one in being able to pool information and ideas and forming definite opinions on mutual concerns.

Our largest concern is, of course, the current depressed condition of the lumber industry, and what we can do for improvement. To do this, we first analyzed the causes for this state. We feel these are the most influential reasons for this depression.

1. Speculation by some companies in purchasing timber sales. Statistics prove certain companies have consistently overbid on sales, in hopes of a continuing rise in inflation. This resulted for a time in over-inflated lumber prices, timber hoarding, and large inventories. These same companies are now wanting the government to bail them out of their problems by an entitlement in the form of contract terminations and extensions, with only minor default penalties.

2. Market demand is very low, due to the general economic recession. Our largest customer, the building industry, is also in a depressed state, resulting in larger inventories, and greater competition for jobs, therefore reducing the price of lumber. Now the selling prices in this depressed market are often too low even to break even with the purchase and manufacturing costs.

3. The cost of manufacturing has not decreased, but has continued to rise. The costs of energy, machinery and replacement parts have all increased.

4. Management overhead costs have also continued to increase.

A. Interest rates on loans rose and stayed exceptionally high for a long period, due mainly to the deficient management of the Federal Reserve System.

B. More government safety rules and regulations have been required.

C. State government in California has imposed more rules for the management of forested private land holdings.

D. The cost of maintaining inventory is greater.

E. Increases in many of the imposed taxes.

F. Increase in the costs of the required insurance.

5. A great rise in the import of inexpensive Canadian lumber. Their prices can be lower as the companies are subsidized by the Canadian government. This is unfair competition.

We do not feel that contract relief will help the industry, but only the few companies who unwisely bid speculatively, and were not prudent in their business practices. It would only encourage future defaults, and would not help to put the people back to work.

We believe that the speculation and overbidding, which occurs on Forest Service timber sales, would be alleviated by some improvements in the regulations and policies. We suggest the following ideas:

1. All sales to be sealed bids.
2. No sale to be over 3 million board feet in a contract.
3. Maximum of a 2 year time period to log a contract.
4. Road construction on a timber sale should be on a separate contract.
5. More tree measured timber sales, all to be completely marked prior to the bid advertisement.
6. Eliminate mill deck scaling.
7. Guidelines established for Forest Supervisors to determine if a sale has been outrageously overbid, and, if so, not to award the sale to those companies.
8. Rules to prevent timber brokers from bidding on the Small Business Administration Set-aside Sales.

As for improving the general economic condition, which in turn would improve the Forest Products industry, we think the biggest problem has been the high interest rates on loans. This was caused by mismanagement in the Federal Reserve System. The Federal Reserve System is no longer useful, or functional, and should be abolished.

There are currently no import tariffs on the Canadian lumber coming into our country. This is a big problem for the industry as it has created unfair competition in the market. They can maintain low prices because their companies are subsidized by the Canadian Government. We believe there should be tariffs on this lumber to equalize the selling prices.

I thank you for your time in considering our views on these critical problems. We strongly urge that action be taken on reforming the Forest Service regulations and policies on timber sale contracts and bidding procedures. It is essential that it be done for an improvement in the industry.

P. O. Box [illegible]
Corning, Calif.
96021

Phone: Corning
Area 916
824-5427

MANUFACTURERS OF QUALITY FOREST PRODUCTS

Ponderosa and Sugar Pine — Douglas and White Fir — Incense Cedar

January 21, 1983

Senate Committee on Small Business
Sub-Committee on Productivity and Competition
424 Russell Senate Office Building
Washington, D. C. 20510

Our company is both small and independent. We are lumber manufacturers and tree farmers in the Northern Sacramento Valley of California. We hire approximately 120 people at peak production. We have been in business since 1931.

The economic problems for small, independent operators like ourselves are many at the present time. They are all connected with the current recession and the record low number of housing starts in the United States. When housing starts go down - our business and our profits go down also. This doesn's mean, however, that we need government relief at taxpayers expense - especially the kind of "welfare" that is being offered by Senator Hatfield's proposed S.2805. Prudent operators among small and independent businesses in the forest products industry are treading water and ready to take advantage of the situation when housing starts in the nation come back up. There are already clear signs that this is happening. Random Lengths, a highly respected lumber price reporting publication speaks of the upturn in the lumber market in its January 14th issue. It says "The $33.00 increase in the framing lumber composits price since January 3rd (1983) reflects what has probably been the sharpest overall price increase in history". Since the first of the year we have sold 5/4 Pine Moulding and Better lumber for $1,275.00 a thousand - and that is within $25.00 of the record high price IN HISTORY for this item. These price increases may be temporary because they are a product of low supply rather than a product of high demand - but the trend is clear. Things are looking up. What a shame it would be to saddle the taxpayers with millions upon millions of dollars of relief for proponents of Hatfield's S.2805 only to find that it wasn't needed and only amounts to a "bonus" to the many mills, big and small, in the United States who got carried away at the timber bidding table in recent years.

Our company and the 3 or 4 other small companies in this area who try to buy government owned timber from the Forest Service compete at these timber sales with Roseburg Lumber Co., Louisiana-Pacific Corp., Diamond International Corp., and Sierra Pacific Industries, all big companies who have the problem of holding high-priced government timber sale contracts that they cannot now operate at a profit. We also

BEST AVAILABLE COPY

compete with Harwood Products, a small company who is in the same boat. These companies have one thing in common - bidding beyond the prudent limit at times on government timber sales in recent years. We were at the bidding table and watching in amazement when some of this timber was sold. We were there in 1979 and 1980, for instance, when Diamond International paid $486.30 a thousand board feet for the Dark Canyon Timber Sale, when Louisiana-Pacific Corporation paid $328.80 for the Ridge Timber Sale, and when Roseburg Lumber Company paid $366.74 for the Black Willow Timber Sale - all on the Mendocino National Forest. In each case the purchasers knew that when timber from these sales was to be harvested, they would be looking at spending at least another $225.00 per thousand board feet to convert these purchased trees to lumber. This would give them a total cost of finished lumber of from a minimum of $553.80 per thousand board feet on the Ridge Timber Sale to a maximum of $711.30 per thousand board feet on the Dark Canyon Timber Sale. They couldn't have made money on these timber sales in either 1980 or in 1979, a record year for lumber sales. In 1979, for example, the Western Wood Products Association Lumber Price Index tells us that the maximum average sales return figures on lumber cut from Ponderosa Pine and Douglas Fir, the two dominant species in the Mendocino National Forest, were $404.77 and $278.23 per thousand board feet respectively. There is no question about it, these companies knew that the above timber sales were losers when they bid them in. They were betting on inflation to bail them out, just as it had been bailing them out on similar timber sales for the previous ten years or so. Instead of inflation we got recession, and these companies want the taxpayers to bail them out because they guessed wrong.

So, in our opinion and the opinion of many companies in the Western United States who didn't get caught up in this trap, past and present overbidding on Government Timber Sales is the biggest problem facing the forest products industry today. The problem should not be addressed by advocating Chrysler type bail-outs for companies with high priced timber sale contracts on their hands. The basic problem is that the United States Forest Service and the Bureau of Land Management do not put up enough timber for sale in most areas of the western part of the country to satisfy the existing lumber and plywood facilities. In the fight to insure enough inventory of raw materials for their plants or to freeze out the competition so that the situation would improve - many companies got carried away with high bidding, and the problem continues even in the recession. Almost every mill has modernized and expanded to become more efficient - making our appetite for timber go up while the amount of timber being sold by the government agencies is going down. The reason the amount of government timber being sold goes down in because of the fantastic increase in recent years in environmental pressures being placed on the Forest Service and the Bureau of Land Management from both without and within these organizations.

Congress and your Sub-Committee should be addressing these problems rather than the unnecessary "band aid" that Senator Hatfield's S.2805 is proposing.

Sincerely,

CRANE MILLS

By Ray Crane

RC:bet
enc. WWPA "Lumber Price Index" for 12/3/81

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Western Wood Products Association

LUMBER PRICE INDEX

For month of: NOVEMBER, 1981 **Issued:** December 3, 1981

	Coast-Inland North Ponderosa Pine (1975-76)			Rocky Mountain Ponderosa Pine (1975-76)			Idaho White Pine (1971 Basis)		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
Jan.	370.84	324.86	384.94	299.38	261.07	323.68	393.07	323.94	360.98
Feb.	378.81	345.97	375.39	311.98	277.07	316.38	388.26	341.16	360.67
Mar.	399.73	359.40	368.04	321.84	290.50	308.72	402.38	364.90	352.81
*Avg.	(383.13)	(343.41)	(376.12)	(311.07)	(276.21)	(316.26)	(394.57)	(343.33)	(358.15)
Apr.	404.77	332.75	368.87	337.44	273.62	309.85	419.51	325.21	347.96
May	396.62	304.12	360.30	329.74	242.50	303.68	409.27	298.15	350.57
Jun.	383.57	302.77	351.40	318.93	244.29	294.95	384.24	301.54	351.99
*Avg.	(394.99)	(313.21)	(360.19)	(328.37)	(253.47)	(302.83)	(404.34)	(308.30)	(350.17)
Jul.	373.27	317.12	350.30	310.19	260.05	297.85	381.65	310.85	351.62
Aug.	361.71	330.34	343.12	301.62	270.27	288.98	365.44	332.56	332.40
Sep.	365.53	336.62	325.48	305.72	283.90	273.23	382.54	317.90	339.47
*Avg.	(366.84)	(328.03)	(339.63)	(305.84)	(271.41)	(286.69)	(376.54)	(320.44)	(341.16)
Oct.	368.05	340.28	314.48	309.23	284.48	266.22	383.54	322.32	337.43
Nov.	346.25	364.39	309.50	291.52	296.97	254.31	350.25	336.66	326.39
Dec.	322.64	389.51		261.02	326.25		320.31	364.01	
*Avg.	(345.65)	(364.73)		(287.26)	(302.57)		(351.37)	(341.00)	
Average Annual Index Price	374.63	338.16		307.85	274.86		384.10	327.53	

	Sugar Pine (1977-78 Basis)			White Fir (Hem-Fir) (1971 Basis)			Dry Douglas Fir-Larch (1971 Basis)		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
Jan.	463.14	416.70	508.55	218.77	202.30	199.92	243.87	221.13	220.21
Feb.	470.95	439.75	495.84	218.95	207.41	196.97	244.73	223.05	214.21
Mar.	489.61	453.81	488.36	223.90	208.85	197.02	250.22	220.31	210.52
*Avg.	(474.57)	(438.42)	(497.58)	(220.54)	(206.19)	(197.97)	(246.27)	(221.50)	(214.98)
Apr.	511.99	450.21	491.83	230.90	185.51	201.40	256.43	196.29	215.27
May	505.30	405.43	484.23	235.79	169.47	202.45	255.92	184.45	217.86
Jun.	481.31	409.99	466.87	237.15	173.38	205.01	258.15	195.03	214.33
*Avg.	(499.53)	(421.88)	(480.98)	(234.61)	(176.12)	(202.95)	(256.83)	(191.92)	(215.82)
Jul.	464.57	418.07	471.96	232.64	188.28	202.67	253.68	214.37	214.49
Aug.	455.25	427.53	452.41	245.04	200.74	200.14	260.21	221.39	212.27
Sep.	450.30	438.00	438.59	252.60	199.39	185.68	278.23	222.51	197.86
*Avg.	(456.71)	(427.87)	(454.32)	(243.43)	(196.14)	(196.16)	(264.04)	(219.42)	(208.21)
Oct.	457.54	444.51	419.28	242.24	199.08	175.57	274.37	217.14	188.59
Nov.	436.54	476.07	414.11	223.32	203.71	170.06	249.47	221.94	182.50
Dec.	420.28	501.96		201.81	208.57		231.04	228.31	
*Avg.	(438.12)	(474.18)		(222.46)	(203.79)		(251.63)	(222.46)	
Average Annual Index Price	469.36	440.46		231.75	196.09		256.02	214.38	

*Indicates Quarterly Average

These index prices reflect the trend of weighted prices for the entire area producing inland species. The grade percentages used are based upon the association's analysis of realization of the various grades for each species in the years shown. All prices used are subject to a 2% cash discount; sales commissions or sales discounts are deducted. Any claims or allowances have not been adjusted. Grade prices used in computing these index prices are available upon request. Index levels are estimated to be representative of market levels experienced four to eight weeks prior to publication.

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Western Wood Products Association
1500 YEON BUILDING PORTLAND, OREGON 97204 AREA CODE 503/224-3930

White Woods
(1974-75 Basis)

	1979	1980	1981
Jan.	204.61	186.13	184.24
Feb.	207.21	195.93	186.32
Mar.	213.38	195.72	185.29
*Avg.	(208.40)	(192.59)	(185.28)
Apr.	218.69	173.25	186.32
May	217.40	152.45	192.08
Jun.	207.57	160.46	190.31
*Avg.	(214.55)	(162.05)	(189.57)
Jul.	212.07	180.12	189.79
Aug.	215.65	184.77	187.40
Sep.	224.53	181.90	176.24
*Avg.	(217.42)	(182.26)	(184.48)
Oct.	216.82	177.80	165.25
Nov.	200.36	183.20	162.92
Dec.	187.10	188.36	
*Avg.	(201.43)	(183.12)	

Average Annual Index Price	
211.53	181.14

*Indicates Quarterly Average

Species	Change from: Oct. 1981 to Nov. 1981	Oct. 1980 to Nov. 1980	Nov. 1980 to Nov. 1981	2nd Qtr 1981 to 3rd Qtr 1981
Coast-Inland North Ponderosa Pine	-$ 4.98	+$24.11	-$54.89	-$20.56
Rocky Mountain Ponderosa Pine	- 11.91	+ 12.49	- 42.66	- 16.14
Idaho White Pine	- 11.04	+ 14.34	- 10.27	- 9.01
Sugar Pine	- 5.17	+ 31.56	- 61.96	- 26.66
White Fir	- 5.51	+ 4.63	- 33.65	- 6.79
Douglas Fir/Larch	- 6.09	+ 4.80	- 39.44	- 7.61
White Woods	- 2.33	+ 5.40	- 20.28	- 5.09

December index prices should be available by phone, Thursday, January 7.

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

FEB 17 1983

Honorable Slade Gorton
Chairman, Subcommittee on Productivity
and Competition
Committee on Small Business
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This is in reference to your letter of January 17, 1983, in which you requested the Small Business Administration to respond to additional questions you had as a result of a hearing on "The Economic Problems Facing Small and Independent Businesses in the Forest Products Industry".

The following are our answers to these questions:

Question: Do you have any suggestions to improve the present set-aside program?

Answer: We believe that the present Timber Set-Aside Program is responsive to the needs of small businesses in the logging and forest products industry. The joint Forest Service/SBA study now in progress may indicate the need for some fine-tuning of the program; however, preliminary indications do not suggest any substantive changes.

Question: Are there any future plans to change the current timber size standard?

Answer: Although we are currently reviewing our size standards, there are no plans to change the regular Small Business Timber Program size standard.

Question: In your opinion, if legislative relief is provided for the timber industry, will the Committee have to legislatively address the 1958 amendments to the Small Business Act which developed the timber set-aside program?

Answer: No. The legislative relief is intended to address the contract provisions of Federal timber sales, while the 1958 amendments to the Act deal with the concept of assuring small business an opportunity to purchase its fair share of Government property.

I hope this information will be of assistance to you.

Sincerely,

for James C. Sanders
Administrator